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# East Europe Report

ECONOMIC AND INDUSTRIAL AFFAIRS

No. 2426



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# EAST EUROPE REPORT

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HUNGARY BETWEEN TWO ECONOMIC REFORMS STUDIED

Paris LE MONDE DIPLOMATIQUE in French, Jun 83 p 4

[Article by Xavier Richet]

[Text] A sign of the times: Hungarian television and press are talking more and more openly, with respect to the economic situation, of "recession" and "zero growth", terms which until now were taboo. It's true enough that, while the country became a member of the International Monetary Fund the 6th of May 1982, this move failed to provide any miracle solutions to the crisis.

Nonetheless, austerity measures have been taken to limit the budgetary deficit, balance domestic prices and reduce the purchasing power of the population as well as the volume of investment by business. Important structural and institutional adjustments were introduced in order to rationalize the action of central organizations (elimination of branch ministries), to encourage competition among businesses (breaking up of large trusts) and to stimulate, industrial and private agricultural activities onto a directed course.

An important debate has begun among economists on the future of the "Hungarian model," as well as on the need to rapidly implement a new string of reforms. This obviously raises questions of a political nature, concerning the party's role in economic activity.

The crisis, which had already begun several years ago (see tables below), has several causes: the structural rigidity of the productive apparatus, a lack of flexibility in the planning system and a deterioration of the international economic environment--including within the Council of Mutual Economic Assistance, [Comecon].

Financially, an increase in indebtedness in the form of convertible foreign exchange, estimated at about 8 billion dollars, gives Hungary the largest per capita debt of any Eastern European country. According to international financial experts, the debt service for 1983 should reach 3.5 billion dollars, which represents 55 percent of export revenues.

The bad experiences of Western bankers in Poland and Romania have made the conditions for credit even more draconian. At the same time, withdrawals to the tune of 1 billion dollars on funds deposited with the National Bank by Arab, Western and Comecon member banks, have reduced the international reserves to some 500 million dollars, placing the country in a precarious financial situation.

In becoming a member of the IMF, the country had to accept a certain number of conditions concerning the parity of the forint, individual purchasing power and the restructuring of businesses. The international financial institution had urgently requested a 10 percent decrease in the currency's parity: in compliance with this request, the government effected an 11 percent devaluation of the forint, in three stages (1).

The effects of this devaluation on exports are practically nil. On the other hand, the government directly diminished the liquidity of businesses, forcing them to take out obligatory State loans; it also raised the interest rates and decreased the net profits of businesses so as to reduce their need to invest.

The price of imported consumer goods increased by 7 percent, which reduced the purchasing power of the population. The only positive point in the devaluation was its effect on tourism, which was strongly stimulated and which accounts for between one-fourth and one-third of the revenues of the current balance of payments.

The devaluation of the forint was, of course, a response to the need to rationalize foreign commerce. Actually, the forint really was overvalued. The exchange rate policy did not aim at evening out the foreign trade balance, but at stabilizing domestic prices. Export prices thus had a residual effect; on the other hand, recent measures should allow businesses to export more.

Another of the IMF's recommendations concerned the reduction of internal aggregate demand and the rebalancing of the budget. The measures reducing the liquidity of businesses and making credit more expensive contributed to this, as did the reduction of business subsidies. However, it was understood that the IMF specialists wanted a reduction in consumer consumption. Politically, such a choice is delicate, since the government has raised the standard of living at regular intervals since 1956. Since the beginning of the recession in 1981 and 1982, a slight growth in consumption (+1 percent) has been maintained. The real income of the population has been preserved, if not the real salaries. For 1983, consumption should decrease by 3 to 5 percent, which is still a far cry from the IMF's recommendations, if one sticks to the principles that have been applied, in developing countries, i.e., that seriously cut into personal income (2).

#### The Dogmatism of the Monetary Fund

The IMF also wanted a restructuring of the productive apparatus, particularly the liquidation of unprofitable factories and businesses, which would inevitably lead to a loss of jobs. On this point, the IMF and the government agree. Physical restrictions on imports will cease at the end of 1982, both because of government objectives and because of its obligations towards GATT. At the same time, the government intends to utilize the opportunities offered by the IMF to effect long-range restructuring. However, the issue of the revitalization of

unprofitable businesses raises a certain number of questions. It is estimated that approximately 6 percent of businesses suffer losses and that only 33 percent are really efficient. Revitalization brings up the question of unemployment, something which does not explicitly exist in socialist economies. According to high-placed officials in the government and the Hungarian Socialist Workers Party (HSWP), it seems politically and socially preferable to accept the kinds of implicit unemployment that already exist in State enterprises. The other side of this underemployment of manpower is the maintenance of low salaries and disorganized working methods (3). High officials believe that unemployment would encourage parasitism because lay-offs would affect segments very close to the "lumpenproletariat." According to the same specialists, unemployment should be solved through demographic changes, by an increase in social protection that would reduce the employment of women (4) and by adjustment policies: the development of tertiary activities, of the private sector, etc.

At first glance, there doesn't seem to be any great divergence between the IMF's recommendations and the government's choices, which for the last several years have been aware of the need to stabilize and restructure the economy. Differences are more apparent when it becomes a question of means: the leaders prefer means that are more flexible than the dogmatism of the IMF, in order to maintain the social and political consensus which has been established in the country for the last two decades.

For several years, the government has increased the pressure exerted by ministries on the economy (5). The ministry of finance and the National Bank have the means to directly influence businesses in difficulty, by modifying the volume of short-term loans and investment funds. But the problem of controlling businesses is very complex: it is possible to increase financial control without improving the businesses' situation.

Moreover, the development of these kinds of pressures creates a harmful climate and causes departure of the most productive workers. The government must therefore offer incentives to orient manpower towards the small private enterprise sector. It would also like to increase opportunities for employment abroad; what was formerly only expediency is today becoming a deliberate strategy, especially since the exportation of "turn-key" factories and of engineering towards developing countries is on the rise (between 1981 and 1982, exports to these countries have gone from 14 to 24 percent). This movement is being organized within the framework of cooperation agreements or through market relations. By way of example, an office was opened in Budapest representing small construction companies that depend on agricultural cooperatives and responsible for scouting out markets in Third World and Western countries, where there are already several thousand Hungarian workers.

In the same way, the government is stimulating the development of related activities that at one time bordered on the illegal (6), thus allowing a fraction of the active population employed in the State sector to be absorbed and to increase competitiveness and the efficiency of the factors of production. However, the development of these small businesses depends on several factors, foremost of which is the confidence of small businessmen; already "post-Kadar" and the problem of his succession are coming to mind. Another factor concerns the possibility of mobilizing a business spirit among relatively limited segments of the Hungarian population. At the initiative of pragmatic elements

within the party and certain ministries, a pressure group, the company for Business Management, was set up and seeks to promote the creation of small businesses. Today it is the League of Young Communists that has taken on the role of herald for small business by publishing a weekly, GEG [INNOVATION], and by setting up an infrastructure and a network of correspondents. Television is organizing debates on innovation. It is somewhat paradoxical, for a communist organization, to defend the spirit of enterprise and the virtues of capital accumulation.

### Fear of Failure

All the same, this does not help in eliminating all ambiguity. The willingness to reform evidenced by certain segments of the Party is offset by the bureaucratic dead weight at the middle levels of the apparatus. For the moment, private enterprises possess very precarious structures and must function in apartments or abandoned quarters. Small businessmen advance capital but refuse to invest, thus limiting the possibilities of extending this sector and of recycling the profits earned.

An ideological counteroffensive is brewing within the State bureaucracy and the HSWP which relies partially on the feelings of a population worried about the effects of the reforms. At the same time certain elements of the State apparatus and industry representatives, as well as small capitalists, are fighting for their extension.

Thus, beyond the immediate economic choices lies the question of the evolution of market socialism. Indeed, the multiform "Hungarian model" must, according to the liberals, lead to a sort of political pluralism within a single party system. However, the question of President Kadar's succession, which will have to be dealt with in the not too distant future, weighs heavily on this kind of thinking.

All these concerns, as much economic as political, found their place in the debate which began last autumn under the auspices of the weekly HETI VILAG GAZDASAG (WORLD ECONOMY WEEKLY). Begun on the initiative of Mr Marton Tardos, a reformer and research director at the Economic Institute, the debate was brought to a close with the contribution of Mr Janos Hoos, vice-president of the Office of Planning. It allowed for the consideration of questions, until then taboo, on the role of party leadership in economic affairs or the problem of property rights (how to create institutions independent of the ministries with the right to capital ownership).

For the liberals, an immediate and in-depth reform is necessary, or the crisis runs the risk of worsening. On the opposing side, a minimal program is being sketched out, which aims at revitalizing the economy while waiting for it to become possible, towards 1985, to initiate new reforms. This seems insufficient to the reformers who advocate stimulating growth by means of a policy based on three principles:

--an in-depth reform of revenue policy, in order to stimulate productivity;

--a strict separation of ownership and management in State enterprises so as to put an end to State paternalism;



--the stimulation of the small business sector and recycling of profits in a multiform financial circuit.

All this should bring about a substantial modification of the planning model and the political system thanks to the introduction of forms of self-management, of industrial democracy and of a larger role for Parliament. On the institutional level, it is therefore necessary to separate the function of capital ownership from that of management, to create financial holding companies supervised by Parliament and no longer controlled by the executive branch.

What the reformers are implicitly calling for is the disengagement of the State and the Party from economic affairs, while still operating within a socialist system.

The leaders advance some weighty arguments for the other side, the principal one being the existence of outside constraints. But they are equally worried about the possible social repercussions of an economic liberalization which would entail numerous sacrifices on the part of citizens as well as a breakdown in the political consensus on consumption patterns. In fact, large fractions of the population are beginning to worry about the effects of the future decline in real salaries (-4 percent) resulting from the application of the IMF's program. Consumers, united within the National Council of Consumers, are alarmed at the prospect of a price increase of 7.5 percent, predicted for 1983. The unions do not lightheartedly accept the thought of transferring workers from unprofitable sectors to those which are expanding. Finally, many Hungarians, especially older people and unskilled workers, presently feel left behind by a movement which tends to push the most enterprising citizens towards the free activities of the flourishing "second economy" sector.

If the leaders seem preoccupied at the present time by short-term considerations, the need for a new, more profound reform extending to areas that until now have been avoided, has become inevitable in order to restore economic growth. Hungarian leaders are accustomed to implementing reforms step by step, in a deliberate fashion, under stable conditions. Today, they must make rapid decisions, in a more and more uncertain environment, and this could lead to an increased rigidity in ideological positions. Will their sense of realism lead them to find, once again, a compromise between existing positions?

#### Diversifying Business

Since the first of January 1982, the government has legalized the activities of the "second economy" and authorized the creation of small businesses in different sectors of activity. Among the 18 types of businesses counted there are:

##### 1) In the State sector:

--small businesses which can be created either by a ministry or a municipality. They rent their materials, take out bank loans, but, unlike the protected businesses of the State sector, they alone assume responsibility for management risks. They can operate in all areas;

--subsidiaries depending on a company, or common to several, that can depend on different branches;

--worker collectives: State enterprises can rent sections of businesses or workshops to their workers, or to other workers, who directly manage these units at their own risk.

2) In the cooperative sector:

--the possibility of creating small industrial or agricultural cooperatives, consisting of between 15 and 100 people working full- or part-time;

--industrial and service activities. It's a matter of extending the activities of peasant cooperatives beyond the agricultural sector into the areas of construction, food-processing, mechanics and labor for hire.

3) In the private sector:

--small industrial and commercial businesses. They are composed of artisans and private merchants. These businesses, which already existed before the new law, can, from now on, develop in all areas of activity and can directly own their means of production;

--worker collectives; they constitute legal associations of private individuals. They can be composed of up to 30 people and are authorized to operate in all areas. This is a form of private enterprise within the framework of a socialist economy.

During 1982, several thousand small businesses were created, mainly in the form of worker collectives within businesses (2,990) and small private enterprises (2,220), to which must be added several thousand restaurants and small commercial concerns to which the State transferred management responsibilities.

Reduction of the trade deficit  
(in billions of forints)

<u>Trade</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>
in rubles	-14.1	-12.2	-12.3	-10.2
in other currencies*	-35.8	- 3.6	+ 6.8	+ 8.5
Trade total	-49.4	-15.8	- 7.5	- 1.7

\*Around 20 percent of Hungary's trade with other Comecon countries is done in dollars.

Source: Foreign Trade Yearbook, 1981, Budapest, 1982

Constant deterioration in the terms of exchange  
(1970=100)

	1973	1974	1975	1976	1977	1978	1979	1980	1981
in rubles	96.6	97	88.5	86.6	84	82.1	80.7	79.8	76.7
in other currencies	98.1	83.6	77.8	83	79.9	80.6	79.6	80.7	82.5

Source: Statistical Yearbook, 1981, Budapest, 1982

FOOTNOTES

1. A new devaluation of 3 percent was once more put into effect early last April.
2. An irony of history, one of the architects of the IMF's doctrine is an economist of Hungarian origin, Mr Bela Belassa, who, up until 1956, was relegated to subordinate tasks in the large steel factory of Dunaujvaros (formerly Stalinvaros), because of his family origins.
3. Businesses that lay off a part of their personnel retain the same budget for salaries, which allows them to raise nominal salaries and stimulate productivity.
4. Which is not certain, since a family in Hungary would have a difficult time living on a single salary.
5. Cf. X. Richet: "The Effects of the Hungarian Economic Reforms. A Balance-sheet, 1968-1982", THE POLITICAL ECONOMIC REVIEW, No 5-6, 1982.
6. Cf. X. Richet: "The Dynamics of Business and Property Rights: Towards a Socialist Entrepreneurship," SEDEIS ANALYSES, No 31, January 1983.

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# IMPERATIVES OF DECENTRALIZED, DEPOLITICIZED ECONOMY REVIEWED

Warsaw MIESIECZNIK LITERACKI in Polish No 4, Apr 83 pp 110-117

[Article by Jozef Kaleta, rector, Economics Academy in Wroclaw]

[Text] Since 1956 economists have been demanding the introduction of economic reform in our country, contending that the commanding, excessively centralized system of planning and administration of the national economy is highly ineffective and promotes repeated economic crises. Such postulates have been submitted at successive party meetings, at congresses of economists and in scientific and journalistic literature.<sup>1</sup>

These postulates have been set forth most strongly in the years 1956, 1970, and 1980, that is in years of social, political and economic crises. The possibility of overcoming these crises was sought in economic reform.

In the past, certain attempts were also undertaken for the realization of these postulates. In the economic practice of 1956, the independence of enterprises was somewhat broadened, headquarters were liquidated and in their place unions were introduced, which—according to the assumptions of those days—were to be economic organizations, not administrative organs. In 1971 the 6th Party Congress declared the introduction of economic reform, which found its expression in the resolution of the congress. On the basis of this resolution the Party-Governmental Commission for the Modernization of the Economy and the State was created and reform began to be introduced that was to be based on large economic organizations (WOG's), equipped with a wide range of powers. In the years 1975-1980 there was talk of initiating a so-called modified economic-financial system of the WOG's.

Unfortunately, attempts undertaken at reforming the system of the functioning of the economy always ended in failure. Bureaucratic centralism triumphed, the economy was subject to ever stronger centralization, which deepened and had to deepen the economic crises. Central organs do not have the practical means of rationally accounting for all raw materials and products nor of directing the activity of tens of thousands of enterprises and adapting it to the constantly changing needs of the society. In the course of the social-economic development of the country the national economy is becoming more and more complex, the range of the cooperation of economic cells is widening considerably and it is more and more difficult to efficiently administer



enterprises from central ranks. Excessive centralization of the economy also cancels out all responsibility for the effects of management and certainly does not favor the liberation of initiatives of people or the disclosure of economic reserves.

Up to the present the economic practice of socialist states proves that deepening the processes of centralization always increases economic tension. An example of this in our country from the last few years is the centralization of regional industry, which--as is well known--led to its nearly complete liquidation and a considerable decrease in market production. Areas of the economy which in the years 1976-1980 underwent especially strong centralization, for example, investments, international economic relations, management of the wage-fund, created for us the greatest amount of economic tension.<sup>2</sup>

In the year 1980 conditions arose for undertaking new attempts at reforming the economy. The announcement of economic reform was included in the "Gdansk Agreements," and later the highest political and administrative leaders of the state repeatedly confirmed the announcement, in among other places, the resolutions of the 9th Party Congress. It was generally acknowledged that economic reform is a basic and necessary condition for leading the country out of the economic crisis. A commission for economic reform was created, several laws regulating the new principles for the functioning of the economy were passed, unions were abolished, prices were raised.

Unfortunately, once again, the effects of the economic reform are far from the general expectations. The basic assumptions of the reform were not successfully realized, and they, after all, forejudge its essence and its final results.

For example, the independence of enterprises was supposed to be one of the fundamental assumptions of the reform. Unfortunately, as yet workers self-government in enterprises does not work, and even though recently created, it is devoid of basic authority provided for in the law, for instance, the right to appoint directors of the enterprises. Without workers self-government and wider participation of workers in the administration of the enterprises there is no chance of authentic overcoming of the economic crises in our country. In the present dramatic economic situation, when we do not have the possibility of a significant increase in real wages, we are forced to appeal to the social responsibility of working people, showing them, naturally, the perspective of the close connection of wages, bonuses, and awards with the real economic effects of the enterprises in which they are working. This is unquestionably necessary if we want to utilize existing economic reserves, which are, after all, great (at present we use only something like 50 percent of our economic potential).

The widely held opinions of the superiority of managerial systems of administration over self-managing systems are often groundless. It has often been stated that only outstanding specialists equipped with computers are able to efficiently administer a modern economy. Even in capitalistic states different types of supervisory councils and institutions for the participation of workers in the effects of the economy are playing an ever greater role

lately. Inefficiency of the functioning of the economy, inequity, particularism of group interests, and all sorts of discrepancies in the system of planning and administration of the national economy arise when there are no vigilant eyes of the creators of the national income directed at what is happening with the fruits of their work and at what is making more difficult the increase of those fruits. Therefore participation of the working man in the decisionmaking process, concerning both the formation of assumptions of the development of the country and the creation of mechanisms for this development is necessary, especially in socialism, the essence of which after all is the socialization not only of basic means of production but also the processes of administering those means. Managerial systems of administration, eliminating to a great extent the participation of the society in the administration of the national economy, cancel out the idea of the socialization of the means of production along with its social benefits and, therefore, remain a glaring inconsistency in the essence of socialism.

The second basic assumption of the reform of the economy has also not been fully realized in practice, namely enterprises have not gained economic independence planned in the reform and guaranteed them by law. This independence is still impeded by branch departments (which were to be eliminated), numerous obligatory associations, the headquarters of international trade, the headquarters of supply, operational programs, central distribution and the like.

Naturally no enlightened person requires a complete acquiring of independence of enterprises from central organs nor a disconnection of enterprises from the framework of central planning. The aim is for central organs to relinquish the administration of enterprises by command-administrative methods and to steer them with the help of economic mechanisms as it was foreseen in the assumptions of the economic reform. Experiences of socialist states up to now and especially the experiences of the Hungarian People's Republic, prove that this is a considerably more effective method of joining enterprises to a framework of central planning than administrative methods.

It is also not possible, it seems, to speak of the creation of conditions for the realization of the third basic assumption of the economic reform, meaning the self-financing of enterprises. Enterprises were burdened with a large quantity of high, often progressive taxes and were forced to give over to central organs a large part of their amortization fund, technical-economic progress fund and the like. Research conducted in this matter shows that enterprises, as a result of the lack of their financial means, systematically limit outlays for modernization-reconstruction investments and for technical-economic progress. This causes a growing decapitalization of the durable assets of enterprises together with a technical-economic regression.

One of the essential assumptions of the economic reform was also to be the making of the workers wages dependent on the economic effects of the enterprises. It is generally known, however, that wages rose in 1982 in relation to 1981 almost 60 percent, while labor productivity and the amount of production during this time decreased. This is irrefutable proof that the economic reform according to its own basic assumptions has not been realized. Lately

there has also ensued a flattening of wages not seen before, which is a glaring discrepancy according to the assumptions of the reform. The policy of wages, instead of becoming an active tool of economic policy in our country, has become an instrument of social policy. The motivating function of wages, instead of increasing, as it was instituted in the reform, is systematically decreasing.

It has also not been possible up to now to impair the existing monopolies in the economy, being the product of the excessively centralized system of administration, although in the assumptions of the reform there was foreseen a considerable limitation in their range and in the future of their total liquidation. The existing monopolies make impossible the rationalization of prices, rates of exchange of currency and the like together with making profit the basic measure of the valuation of the economic activity of enterprises, consequently to a large degree cancelling out the possibility of the introduction of a parametric system of administration. The fact that an antimonopoly bill in preparation has not yet been passed constitutes a serious gap in legislation regulating the new rules for the functioning of the economy.

The "rules of the game" designating relations between enterprises and central organs have not been stabilized for longer periods, although such stabilization was planned in the reform. Tax rates, deductions for foreign currency, regulations for the financing of technical-economic progress and the like are still fixed yearly by acknowledged methods. In 1982 some "rules of the game" were fixed even for periods shorter than a year, for example, deductions for the State Activation Union were decreased for enterprises that achieved an improvement in economic results in the second half of the year. This type of solution created an undeserved preference for enterprises ineffectually working in the first half of the year and placed enterprises working well and rhythmically throughout the entire year in a significantly worse situation. It is not necessary to prove that such fluctuation in the "rules of the game" does not promote the freeing of reserves and the increasing of administrative effectiveness over longer periods and remains, therefore, at variance with the basic assumptions of the economic reform.

Also essential changes in economic practices up to the present in the areas of issuing money and giving credit to enterprises have not been introduced, although new institutional solutions in this area are in order. A very modern act concerning banking law has not been realized in practice. The bank still does not control the issuing of money, and bank credit has an obligatory character. Attempts undertaken through the bank at stopping the giving of credit to enterprises, which causes the national economy to sustain a loss, ended in proposals for removing certain bank directors.

Naturally it is also not possible to introduce economic reform only by carrying out the reform of prices. The reform of prices, although surely a very important element of economic reform, is not able, however, to complete the reform or be a substitute for it. In monopolistic conditions of economic arrangements, with the lack of competition, with the other unreformed elements of the system of the functioning of the economy, price reform was not able, after all, to bring about and did not bring about the expected results, but



even led to many negative economic and social consequences. Granting authority, for example, to enterprises for free formation of prices, based on the cost of their own production, led to and had to lead to an unwarranted rise in prices. In the prevailing conditions of a monopoly and a lack of competition, enterprises are able to very easily increase their own profits through the raising of prices, even by increasing their own costs and reducing the amount of production. Consequently, they are able in this way to throw onto the shoulders of society the costs of the waste of national resources, defective organization of work, faulty economic decisions, incompetency of the leadership of the enterprises and the like. Some enterprises are known that in the past showed great losses, but today, despite the fact they have raised the cost of production and they produce half as many goods as 2 years ago--are achieving high profits thanks to the reform of prices. The reform of prices instead of encouraging enterprises to increase the size of production and reduce their own costs (such was, after all, its sense) in most cases led to diametrically opposed results. This is one of the essential reasons for the high rise in wages, despite the decrease in levels of production and efficiency of work. For this very reason in the first year of operation of the new system of prices the need arose for correcting it in the direction of widening the range of official and regulated prices.

Beginning the economic reform from the reform of prices was motivated by the need for restoring market stability and creating in this way the fundamental condition for introducing economic reform. For some time the point has been officially voiced and acknowledged that economic reform can not be introduced in the conditions of market instability.<sup>3</sup> Naturally with the help of prices it is possible to introduce market stability, such stability exists in the majority of undeveloped countries, and even in the most economically underdeveloped countries, which are achieving a yearly national income per person of less than \$150 (for example, Afghanistan, Bangladesh, Burma, Ehtiopia, Zaire). In Poland certainly it would also be possible to restore full market stability, if, for example, meat prices were fixed at a level of a few thousand zloty per kilogram, clothing prices in the amount of 50,000 zloty, television sets--200,000 zloty and so on. But such balancing of the market is very primitive, not favoring the development of the economic situation, discouraging people from work, causing social tensions, decreasing in a drastic way demand for products, and the result is--the choking of the economy. Also we do not have the need for balancing the market solely by raising prices, since we have great economic reserves. Through the use of these reserves we are able to increase the supply of goods on the market together with lowering the cost of production and in this way more effectively to stabilize the market, and at the same time stimulate the economic situation.<sup>4</sup>

Not realizing the basic assumptions of the economic reform does not mean, of course, that in general no reforming activity has been undertaken in the country. On the contrary, such activities are allowing, for example, enterprises a certain range of free information of the assortment of products on the basis of a contract, authorizing some enterprises to contract directly with international contracting parties, lifting of limitations of investments of enterprises. Complex, critical economic reform is not able, however, to resolve itself into this type of fragmentary changes to the system of the

functioning of the economy; the reform must include in its range all the essential elements of this system. It will only be possible to speak of the initiation of economic reform when its basic assumptions have been realized.

In light of the above considerations the question presents itself, why a complex, critical economic reform is not being realized in agreement with its basic assumptions, despite the resolutions decided upon by the 9th Party Congress, which obligates the introduction of such a reform, despite the many very good laws already passed and the many assurances of the highest organs of leadership and state administration that the reform must be quickly and consistently introduced.

The reasons for not realizing (the impeding) of the reform are for sure many, among them the most often mentioned is the economic crisis, deepened by the lately adopted economic sanctions of certain western countries. There is no doubt that the present economic situation does not favor the introduction of economic reform and does not create for it the proper conditions, and the sanctions of western countries to a large degree are disorganizing our economy. This is not, however, sufficient justification for postponing the reform until "better times," but it ought to constitute an important reason for speeding up the reform. Mainly through economic reform, after all, it will be possible to lead the country out of the crisis. Naturally along with the reform it is also necessary to make appropriate changes in economic policy, to undertake energetic efforts at lifting economic sanctions and the like.

The most important reason for not realizing the economic reform is--in my opinion--the primitively conceived primacy of politics over economics. The subordination of the objectively acting economic laws to politics practically makes impossible the use of economic mechanisms and the introduction of a parametric system of administration and, instead, rather favors the retention of the command method of managing the economy and economic volunteerism. Recently advocates of the primitively conceived primacy of politics over economics have become very active. Even at meetings of Sejm commissions some deputies (former first secretaries of provincial committees of the PZPR) have been in favor of renouncing reforms and restoring the tried command method of administration.

The primacy of politics over economics is most often justified by the need for assuring the party of the leading role in the economy. This is unconvincing; the fulfilling of the leading role in the economy by the party in no way requires a direct encroachment of political organs in economic areas, especially in the area of the present administration of the economy. Substituting competent and responsible organs of economic administration with political organs simply cancels out the possibility of the party fulfilling a leading role in the economy. The party is able to and should fulfill the leading role in this area only through laying out strategic social-economic goals and through its own members acting in organs of leadership and administration, and also in organs of workers self-government.

The second very crucial reason for not realizing, or impeding, the economic reform--in my opinion--is the insufficient reduction of the administrative

economic apparatus, especially the central apparatus. Unfortunately many branch departments were not liquidated; the tasks of the functional departments were insufficiently changed; numerous central economic organizations have remained in the form of headquarters for international trade, headquarters for supply; the majority of unions were converted into union associations. Departments and union associations still meddle in the current economics of enterprises with administrative methods, demand detailed information about the functioning of enterprises, information which in turn is demanded from them by vice-premiers, numerous committees of the Ministers Council and the like. The administrative economic organs at the provincial level where little has changed lately are also excessively developed.

A classic example of direct encroachment of central administrative organs in the area of the activity of enterprises is the latest test of the directors of enterprises for their knowledge of the mechanisms of reform organized by central organs in Warsaw on January 10 of this year. The qualifications of the directors of enterprises should be evaluated, according to obligatory legal regulations, by crews of the enterprises and workers self-governing bodies, mainly on the basis of economic effects, and not by central organs. The qualifications of the managerial staff of the enterprises ought to be varified first of all in the process of instituting reform on the basis of economic results, and not on their knowledge of theoretical formulas or perpetually changing legal regulations. Economic reform, if it were introduced would certainly eliminate inept directors of enterprises, workers crews would not tolerate directors, who could not ensure the suitable economic dynamics of the enterprises, high profits and wages.

The presently existing administrative economic apparatus was created in an excessively centralized, command system of administration. In the reformed parametric system of administration a large part of this apparatus will become superfluous, hence reluctance towards any attempts at reforming the economy is completely understandable. Naturally workers of the administrative apparatus do not protest directly against the reform; they even officially declare a desire to initiate it, but still these people are as often as not intelligent and are able to work against reform, feigning reform-like activities. They have acquired in this area lots of experience, having effectively stopped all economic reform in the past. Opinions voiced by certain representatives of organs of the central administration are sometimes heard that in present economic crisis conditions of the country, it is not at all possible to introduce economic reform, and if certain attempts in this area are undertaken it is only because great social pressure exists demanding reform.

A generally known example of impeding economic reform by the apparatus of the economic administration, and especially by the central apparatus, was the inappropriate selection of members for the commission for the affairs of economic reform appointed by those organs, among who could be found people responsible for the newly created economic crisis, former advisors to Gierek, decided opponents of reform. Many groups of the commission were led by present or former vice-premiers and ministers. The staff of the commission lacked, as well, many of the outstanding economists who for many years had demanded economic reform.<sup>5</sup>



Another example of impeding economic reform by central organs was the protracted procedure of working out the assumptions of the economic reform by the commission for the affairs of the reform. Certain social groups worked out plans for the reform much earlier than the "government" commission.

The Ministry of Finance also supplied many examples of effectively impeding the economic reform. For a long time the ministry protested against the exclusion from its range of activity the bank-credit system, although Poland was the only socialist country, and perhaps the only country in the world, in which banks were under the jurisdiction of the minister of finance and, of course, this kind of solution was inappropriate. Against general protest the Ministry of Finance forced an excessively high progression of profit taxes, high, progressive deductions for the Union Activization Fund, the rule of yearly establishing certain financial norms (for example, certain tax rates, deductions for foreign currency funds and for the Union Activization Fund).<sup>6</sup> The Ministry of Finance takes for the state budget a considerable part of the amortization fund of enterprises, which often makes impossible modernization or even the simple replacement of means of production. A permanent centralization of the amortization fund and technical-economic progress fund is being initiated for enterprises of many departments, which is clearly contradictory with the assumptions of the economic reform.

The position of the Ministry of Finance makes impossible, therefore, the realization of the rules for self-financing of enterprises and to a large degree cancels out the motivating function of wages, profits, which--as we know--was supposed to be the fundamental role of the economic reform.

The department of finance, responsible to a large extent for the economic crisis (since it is directly responsible for the excessive foreign indebtedness of the country, for realization of investments which considerably exceeded the financial possibilities of the state, for the depreciation of money and other economic-financial instruments), today is impeding the economic reform, hindering the country's emerging from crisis. Financial regulations, especially those concerned with the taxing of enterprises, to a large degree cancel out the possibility of the realization of many modern regulatory laws, new rules for the functioning of the economy.

The Ministry of Finance also carries to a large degree responsibility for the great differentiation of the financial situation of enterprises which also greatly hinders the initiation of the economic reform. This differentiation comes mainly from encumbering many enterprises with investment credits, levied in previous years. These credits often reach hundreds of millions of zlotys and to a large degree encumber the profit of enterprises, which puts them in a clearly unfavorable situation in comparison with enterprises not having credit encumbrances. In order to assure enterprises equal chances during the initiation of the reform, the clearing of debts of the enterprises through proper refunding of credits from budgetary means is necessary.

The Ministry of Finance also opposes regional economic reform now in preparation, extending of the financial independence of national councils and stabilization of compensatory income for a period of many years, despite the

unanimous support of these postulates by 9th Commission Group for Economic Reform, the Group of the State Council for preparing of the proposal for the bill concerning national councils and by all chairmen of provincial national councils, who expressed this point at the session of the State Council in April 1981.

The excessive fiscal stringency of system solutions, justified by the Ministry of Finance by the difficult economic situation of the country and the large budget deficit of the state, evokes--in my opinion--serious reservations. Gathering for the budget too large a part of the profit of enterprises may bring immediate results in very short periods, but in the long run must deepen the economic crisis, because it destroys all economic stimuli for increasing economic effectiveness. In modern countries, the economic situation is generally stimulated not by raising taxes of enterprises, but through lowering them.

The position taken by the Ministry of Finance in bills passed concerning the financial economics of enterprises and their taxation, for example, in matters of taxing profits or deductions for the Union Activation Fund, has met with general criticism, and, as a result, only a few months after passing, the bills had to undergo amendment. If the economic reform is to be consistently realized, there will have to be changes going decidedly farther than that in the obligatory bills.

In particular the liquidation of the generally criticized Union Activation Fund seems necessary. The advisability of the creation of the fund was justified by the foreseen high unemployment. Meanwhile these predictions did not prove valid in practice; in the great majority of enterprises the lack of workers can be felt. In 1982 in the whole country, less than 200 workers used this fund. The creation of this fund is also not justified by the need for limiting the excessive incomes of workers; this function is fulfilled, after all, by a compensatory tax.

A general pulling back from progressive rates in the profit tax in favor of proportional (linear) rates is also necessary. The progression is a strong negative stimulus on an effective economy, and moreover, is also unjustified for another reason, a successive increase of effects must be accompanied as a rule with more than proportional efforts and expenditures (the so-called law of diminishing returns). It seems that the basis for accepting the high tax progression was the thesis that an earning capacity exceeding 10-15 percent is usually achieved by improper economic methods and brings harm to the society. This assumption does not seem to be justified in the light of the existence of great reserves in our economy. Only about 50 percent of the economic potential of our country is being utilized, the indicator of workshifts in many of our industrial areas amounts presently to about 1, while in highly developed countries it exceeds 2. There exists, therefore, legal and quite equitable possibilities for a considerable increasing of earning capacity in the majority of enterprises without harm to the society, on the contrary--in its vital interests. One should not, therefore, oppose the freeing of economic reserves and the increase of the earning capacity of enterprises with a high progression of profit tax.



It is also necessary to completely make free from profit tax the profit of enterprises marked for the financing of modernization of plants, as it is in nearly the entire world. Tax relief introduced in 1983 in an amount not exceeding 20 percent of the profit tax is not at all sufficient and certainly will not favor intensive technical-economic progress in our country.

An essential condition for introducing economic reform is also the bringing into existence of basic financial instruments in the form of: currency exchange, bank rate, customs duty, amortization rates and the like along with their more active use in the economy. A parametric system for the functioning of the economy must be based on properly constructed economic parameters.

The above considerations indicate that the main barriers to economic reform have an internal, and thus subjective character, and so they do not result from external, objective nor structural conditions of our social-economic system. The primitive realization of the rule of the primacy of politics over economics, based on, among other things, the ignoring of objective, economic laws and the excessive development of bureaucratic centralism in our country certainly do not work in the interests of any of the socialist countries, and also do not result from the essence of socialism. On the contrary, they remain at drastic variance with the basic assumptions of socialism and with proclaimed ideas. The treating of internal barriers to the economic reform as objective limiting conditions would mean that we are condemned to continual repetition of mistakes in the system of planning and administration of the national economy, or in other words, that our system of economic functioning is unreformable and must undergo permanent crises.

#### FOOTNOTES

1. I myself have many times also pointed out in numerous publications and in public appearances (for example, at party gatherings, congresses of economists, scientific conferences) the necessity for the introduction of economic reforms.
2. I gave a wider presentation of the drawbacks of excessive centralization and the advantages of decentralization, demanding complex, industrial economic reform in an article entitled, "In the Direction of a Cohesive System of Planning and Administration of the Economy," NOWE DROGI, 1980, No 9, pp 120-130.
3. I have engaged in polemics against this point many times in the 1970's, and the extensive reasoning of my position on this matter I gave in the article cited before, published in No 9, NOWE DROGI, 1980.
4. I justified this point more thoroughly in an article entitled, "How to Eliminate the Inflationary Overhang," KULTURA, 1981, No 40, pp 1 and 9.
5. I made a critical evaluation of the make-up of the commission in an interview published in the pages of No 45, POLITYKA, 1980, pp 1-2.
6. At the last plenary session of the CC PZPR before the calling of martial law (VI) all who took part in the discussion very critically evaluated proposals for bills in this area. The criticism of these solutions also held sway in the press and among groups of specialists, including groups from the Commission for Economic Reform.

## BACKGROUND INFORMATION PROVIDED ON 'POLONIA' FIRMS

## Export Activities

Warsaw HANDEL ZAGRANICZNY in Polish No 10, 1982 pp 9-10

[Article by Jan Rewkiewicz]

[Text] Many hopes were linked to the admittance of "Polonia" firms to our economy. One of them was a larger assortment and market availability of daily necessities, those whose production requires particularly efficient operation and raw materials and components imported from the West. It was also expected that the state would obtain foreign-exchange income derived from the division of profits from the exports of these firms. At the moment the "Polonia" firms are dynamically expanding production of market items, but export continues to be a marginal part of their activities. Thus far only about one third of these firms is selling its goods and services abroad. Why is this happening? After all, the "Polonia" firms themselves are also very much interested in export, since a transfer of some of their profits is possible only when they have their own foreign-exchange income.

Particularly for those firms which have already invested a large amount of capital and are still investing hard currency, export is a totally basic matter, a real "to be or not to be". The owners who invested a large amount of foreign currency are concerned mainly with foreign-currency profits; however, they are interested in income in zlotys insofar as these zlotys can help in expansion of the firm. Revenues from free foreign-exchange export are indispensable to the "Polonia" firms also because the modern and attractive products that they produce ordinarily require large imports from the West.

The small amount of export by "Polonia" firms can be partially explained by the fact that the large majority of these firms were established recently—during the last two years. Practically every new firm must allocate all of the initial period for the construction of plants, the organization of production and the mastery of technological processes. That is why two or three years are needed before export can begin. Most of the export thus far is now being done by the "Polonia" firms which are very familiar with foreign markets, and principally those which have their own sales network. However, those who took export possibilities into consideration at the time they established their firm in Poland are usually in the best situation.

One of the two oldest "Polonia" firms, KONSUPROD, established early in 1977, has especially ambitious export plans. It began to sell abroad as early as late 1979, as soon as regulations enabling "Polonia" firms to export appeared. This firm, therefore, stands rather well. Two of its main export products are: synthetic resin containers used to haul skis and other baggage on roofs of automobiles, sold for over two years, and recently, coats, made of imported plastics imitating fur.

The ratio of KONSUPROD's foreign-exchange receipts to its total turnovers, which will amount to approximately 350 million zlotys this year, is really not very high yet. But already this year the anticipated export, amounting to one million West German marks, will, for the first time, exceed the imports that the firm needs. The managing director, Jan Wejchert, the Polish representative of the FRG owner of the firm, says that for now this is just the beginning. Entry into western markets is incredibly difficult at this time, therefore it is necessary to act prudently and methodically, for it is not hard to get one contract, even a large one, bungle it, and never get another one. The point, however, is to remain in the market and obtain larger contracts each year. That is why it is so important to make detailed preparations and have an excellent familiarity with the production of each item before offering it for export. A great deal of initiative and an up-to-date, offensive trade strategy is also indispensable.

For example, the automobile baggage containers mentioned above were a totally new item two years ago, promoted by KONSUPROD on the western markets. These containers were designed jointly with the West German home firm. Up to now, therefore, this article had a rather limited sales market. Only now is it beginning to become an item that is sought. At present the firm is beginning production of other products made of plastic, with export in mind.

Preparations for production and sales of synthetic furs—a traditional goods manufactured by many producers—required a number of other, very considered and costly, measures. First, KONSUPROD opened a design office in the FRG in which a collection of several dozen furs, conforming to style trends, was assembled. It was then necessary to travel with these samples to all the potential buyers and collect orders. Only then, when they had specific orders in hand, did they send the patterns, materials, etc., to the Polish plants and begin to sew for export. This year they will sell 10,000 fur coats to the FRG, and next year they want to send much more. Therefore, time was necessary for suitable expansion and preparation of production facilities, because if they had not been able to offer a large lot this year, there could be little hope for larger sales next year.

In the opinion of the "Polonia" businessmen, the basic conditions enabling them to export have already been created. The accounting system in effect encourages them to intensify export. The "Polonia" firms, as distinct from other businesses operating in Poland, can freely use their foreign-exchange receipts, on condition that they resell to the Polish foreign-exchange bank, half the excess of receipts from export over expenditures for import. The "Polonia" businessmen are also counting on the effects of the law—a very good one, they believe—on authority to conduct foreign trade. At present, despite the mediation of the foreign-trade offices and the commissions they are collecting, they are still left totally to their own resources. Thus far there has not been one instance in which a foreign-trade office has been able to find or refer a suitable foreign contractor.

The subsector offices, which—despite the provisions of reform in foreign trade—are holding on to their monopolistic positions with all their strength, do not want to let the "Polonia" firms in even to the western markets that they themselves are neglecting. At present it frequently happens that "Polonia" firms are producing products similar to those of the state enterprises. These products could be exported, but at prices lower than those proposed by our trade offices. For example, one of the foreign trade offices cannot sell wood pallets, used to transport goods, abroad, because the prices that it demands for them are too high. Yet "Polonia" firms, whose production costs are lower, could export these pallets more cheaply. But the trade office will not agree to this, and thus it blocks all of the export. No one is concerned that such practices, which are based on eliminating all competition, are completely in conflict with the spirit of reform in foreign trade. Considering the above, therefore, it may be expected that the "Polonia" firms which obtain the right to independently conduct foreign trade, will also have problems in obtaining permits for export and long price discussions will begin. But there is a simple method for this: the party that questions a price can be asked to try to sell the given goods at a better price.

The "Polonia" businessmen suggest that firms acting as intermediaries in foreign trade be established in Poland. These small import-export offices could concern themselves primarily with the interests of small customers, just as most of the "Polonia" firms do. After all, the large headquarters offices are not able to properly service the small producers which have widely varying and rapidly changing needs. The point is also that each of the producers should be able to select the import-export firm that best suits him, the one that will really concern itself with his goods.

It is much easier for small firms than large firms to operate on western markets and reach foreign purchasers. After all, unusual aggressiveness, excellent familiarity, and narrow specialization are essential; one produces, another sells, and the firm taking care of sales informs the producer on an ongoing basis of the requirements of the foreign customers. Throughout the entire world, even the large producers seldom concern themselves with foreign trade. They normally entrust it to these small import-export firms. That is why it seems that there is no need to think about it, or philosophize, but to do the same. We should follow good examples.

The next demand of "Polonia" businessmen concerns the possibility of organizing consignment warehouses in Poland for imported goods. Many firms import sometimes even very small amounts of raw materials, components, or elements, paying high prices for them abroad. Allowing these firms to open warehouses (for example, paints or even screws), from which goods could be sold immediately and not through the arduous intervention of the foreign trade office, would make it possible for the state, cooperative and private enterprises to be supplied with imported small items efficiently, because it would be direct and rapid, which in turn would permit them to reduce their purchases for reserve stocks.

Jan Wejchert says that he could not conduct a business at all if his home firm in Frankfurt did not take care of his import matters. After all, no foreign trade office is able to furnish the various things necessary for KONSUPROD to function in Poland, at such speed and at such low prices. It is enough to say that the firm imports several dozen types of the same office items, such as paper, ink and tape.



And it purchases components for synthetic resins from several suppliers in different parts of the world. In the light of the above it is understandable why firms which do not have resilient home firms abroad find it incomparably more difficult to get their export production going.

In summary: export by "Polonia" firms could be quickly increased if they were given permission to act as agents for products of other firms in foreign trade. Our producers could also satisfy the requirements of exacting foreign customers more easily if various types of warehouses were established, making it possible to immediately purchase small, but indispensable for export, imported products.

Of course, not all of the demands of "Polonia" firms, which are aimed mainly at maximizing profits, can be reconciled with the general assumptions of the economic system in effect in our country. Anyway, we have already done a great deal to regulate the principles under which foreigners can conduct economic activity in our country. The law passed by the Sejm [parliament] on 6 July 1982 portends changes favorable for "Polonia" enterprises. Thus there is hope that detailed executive orders to this law will soon be issued, and that they will not pervert the good intentions of the legislators.

Serious thought about increasing Polish export requires that those who themselves show initiative and real interest in selling their products and services abroad should be supported. Specifically, those are the "Polonia" firms, whose experience can pave the way for other, more static, organizational units of our economy.

#### Activities, Organization

Warsaw RYNKI ZAGRANICZNE in Polish No 126, 18 Dec 82 p 8

[Article by Ewa Sadowska-Cieslak]

[Text] Activities of firms based on foreign capital in a socialist economy are something very new in the economic policy of states which have this political system. That is why Council of Ministers Decree dated 14 May 1976 permitting foreign physical persons and corporate bodies to conduct some types of activities on Polish territory is of historical significance.

It was not, in any case, in its initial tenor, as encouraging to investment in Poland as was commonly believed, particularly for businessmen who in their own countries were accustomed to much greater freedoms of action in the economic arena, not mentioning the fact that the method of legal regulation itself did not give the future potential investors sufficient legal guarantees in relation to their property rights. It is worth mentioning, for example, that the possibilities of using bank credits, even turnovers, were not foreseen for foreign investors. Insofar as transfer of profits was concerned, the provisions included a right to take abroad 9 percent of the amount of the invested capital annually, while the permit to conduct business was issued for a 10-year period, i.e., a period shorter than the time during which the capital could be withdrawn. The possibilities of expending zlotys profits in Poland were--aside from allocating them for new investment--very limited.

## Gradual Development

Despite such disadvantages, there were businessmen who took the risk. The development of Polonia-abroad firms occurred gradually: In 1977 three such types of firms were established; in 1978, there were nine, and in 1979, 18. Not until 1980-1981 was a larger number registered, which was the result of certain changes in executive regulations.

In 1982 Poland's Sejm passed a law modifying the provisions of the 1976 Council of Ministers Decree. This law is the affirmation of the government's policy of constancy towards foreign investments in Poland and it embodies many suggestions and proposals submitted by representatives of Polonia-abroad firms relative to regulations that are favorable to both sides, i.e., for both the Polish economy and for foreign investors. But they are still not perfect and are something of a compromise between the interests of the national economy and the interests of the owner of such a firm.

At present there are approximately 300 Polonia-abroad firms operating in Poland, i.e., firms whose owners are 100 percent citizens of foreign states. In 1976 the turnovers of the three firms in existence at that time amounted to 18.5 million zlotys. In 1980, when there were already 76 of them, they reached a total of 833 million zlotys, and export to the West was valued at \$630,000. A year later, when there were 154 firms, sales grew to 3.2 billion zlotys, and export to capitalist countries amounted to 2 million dollars. Judging by the flow of this year's new applications for permits, we can expect that by the end of 1982 there will be over 300 Polonia-abroad firms, their turnovers will exceed 10 billion zlotys, and export will approach 10 million dollars.

In comparison with turnovers of state enterprises, and also foreign trade, these are not large sums. Nevertheless, if we consider the short period and the fact that their activities are limited exclusively to the small-scale production sector, then the results attained can rouse certain hopes both in relation to growth of export on the foreign-exchange markets as well as an increase in supplies on the domestic market.

## Range of Activity

The Polonia firms represent a wide cross-section of industry. The ready-to-wear sector, i.e., sewing of children's, women's and men's clothing, has the largest representation. Also very popular among the foreign investors are knitting, shirt-making, furriery, tanning (hides), purse-making and hat-making. Next the interest is concentrated on the processing of plastics, and in addition, on production iron-working, carpentry—from the production of boards, slats, parquet flooring and wainscoting, to the making of furniture—and wood carving.

The food industry is also represented, although the number of such plants is incomparable small in relation to existing needs. The Polonia firms process fruits and farm-food products, and produce food concentrates, spices and flavorings.

Other sectors represented by Polonia business include: electromechanics, electrical engineering, electronics, automotive mechanics, precision engineering, production of cosmetics and perfumery items, detergents and cleaning items, toymaking, boatbuilding, goldsmithing, installation of sanitation equipment, and polishing precious stones.

Single firms sell spare parts for foreign automobiles, extract and process chalk, do picture-copying and conduct sports and recreation centers in connection with hotel and restaurant facilities.

Foreign businessmen, with a good feel of the market, invested their own money, filling certain production gaps, or at least narrowing them, but despite the fact that their range of activity is wide, there are still many possibilities in the small-scale production sector that have not been taken advantage of. Foreign capital could have been invested in agriculture, in which there is a need to develop the raising of cattle, sheep, poultry and hogs. The Ministry of Culture expressed a willingness to establish cooperation with Polonia capital, and its range of interests is broad--from the production of musical instruments and accessories to these instruments, through the phonographic industry, production of artists' paints, ballet dresses, and the manufacture of light sources used by film operators. There is also the opportunity for investing capital in the construction-materials industry.

A larger number of investments was anticipated in the food industry. This sector will be given priority in the future by the authorities issuing permits for startup of new firms, because there is a large, unmet need in this area, for example, in the production of liquid nutrients for children based on Polish raw materials and western technology, or the production of juices with a long shelf life.

The production activity of foreign investors in Poland is based to a large degree on domestic raw and other materials, both primary as well as secondary and waste. A pool of raw materials has been allocated for the Polonia firms and is in the hands of the Poland-Polonia Industry-Trade Chamber INTERPOLCOM. There is a lack of reliable data on what the Polonia firms' supplies of domestic and raw materials really are. It appears from available data, however, that the Polish supplies are mainly natural, unprocessed raw materials, while chemicals, plastics, etc., are imported.

#### Employment

In mid-1982 the Polonia-abroad firms employed approximately 0.05 percent of the total workers employed in the national economy and 0.3 percent in small-scale manufacturing. The size of the staff in the individual firms differs and is defined each time by the organ issuing the permit to begin operations. The employment structure is as follows: 80 percent are women; from 60 to 88 percent of the total employed do physical work; and 1 out of 26 has a higher education. Thus the firms mainly employ women and do not require that their employees have an education, on which large financial outlays were previously incurred.

At the moment, the Polonia firms are not significant in terms of competition for the labor market along with state and cooperative enterprises. Nor can they exert a large effect on changes in the employment structure in the national economy during the next couple of years. It is a fact, however, that they take skilled workers in specific sectors out of the local labor market, attracting them by good work organization, modern technical equipment, interesting processes, and relatively high wages, which, as a result, may cause local shifts in the employment structure. But, among other reasons, that is why the voivodship authorities received the right to issue permits for Polonia firms to begin operations, in order to prevent such situations from occurring.

## The Wage System

Foreign firms employing Polish citizens are required by law to pay them according to rates no lower than they would receive in the same positions in sectors with a similar cross-section of economic activity. The amount of the wage paid should be differentiated according to vocational qualifications, education, period of training, and position occupied. In addition, they are required to pay them 50 percent of their wages in the form of a special allowance.

In practice, the Polonia firms are complying with these regulations and the provisions of the Polish labor code, but they have developed some detailed settlements applying mainly to the method in which a bonus fund is divided. For example, some firms pay a certain percentage of the base salary in the form of a so-called "attendance allowance", for not missing even one day's work a month. Most of the firms indicate that there is a high degree of self-discipline among the workforce. Generally speaking, it can be said that in the Polonia firms workers' earnings are tied to the firm's economic results. And although the salaries paid to them are higher than in similar positions in state industry, the workers believe they should be even higher because their productivity is also greater--sometimes even two or three times greater.

## The Price System

The prices of goods produced by Polonia firms are established for the most part on the basis of an agreement between the seller and the buyer. Thus these are contractual prices. They are high, for the average purchasing potential. The factors which shape them at the present moment are not so much the high costs of production as the market factors. These are equilibrium prices, i.e., prices at which the goods do not instantly disappear from the shelves of the shops, but neither do they lay there too long. This immediately shows that the goods are intended for the more affluent social strata and for the most part compete principally with PEWEX [Domestic Export Enterprises].

## Doubts and Reservations

The operations of the Polonia-abroad firms arouse many reservations. They stem mainly from observation of the life style of some of the firms' authorized representatives, absence of public acceptance of some types of production or services and their prices, and also from the stories floating around about the high earnings of the employees.

But there should be no exaggeration. It is a fact that every new kind of economic activity arouses the interest of society which, after all, evaluates the outward signs without going into the method by which the firm is being run and the internal conditions and difficulties. On the other hand, in their functioning the Polonia firms encounter many daily, minor difficulties in conjunction with the operations of state enterprises, offices, and other institutions which have been for years accustomed to certain methods of procedure, direction and control.

In implementing their right to the freedom given to them in economic operation, the Polonia firms, in turn, create problems for the institutions with which they cooperate. Hence the mutual complaints as to style of operation. For example, the



Polonia firms are waiting all the time for creation of a loan bank to service Polish and Polonia small-scale manufacturing entities, particularly in the area of foreign trade. They are also waiting for the authorities' position on the use of leasing, and also for clarifications on the possibilities and principles of entering into contracts with enterprises from the socialist countries, and on agreement for establishment of duty-free consignment warehouses. They ask also that duty procedures be simplified, that matters pertaining to issuance of permits to begin operations and on permission to use their own transport be settled promptly. These and other more detailed matters are awaiting the resolution of the competent authorities. In turn, the central organs accuse the Polonia firms of being more interested in making high profits, and not on production but on trade with Polish goods.

The situation existing between the Polonia firms and the central organs should be no surprise. Rather, it should have been expected. A certain amount of time must still elapse for the cooperating sides to learn to find themselves in a situation that is new to them: Polonia firms, in a planned economy system, and central institutions, in relation to organizational units which in the future will have to be directed by parametric methods, in relation to whom it will be necessary to develop a long-range strategy of conduct and to define their place in the country's economic system. As to the fact, however, that they can bring many benefits there is already very little doubt.

#### 'Inter-Polcom' Official Comments

Bydgoszcz GAZETA POMORSKA in Polish 21 Jan 83 p 3

[Interview with Stanislaw Rakowicz, deputy secretary-general of "Inter-Polcom", by Wojciech Lesiewski; date and place not specified]

[Text] Polonia firms have been operating in the country for several years now. In the fall of 1981, an independent Poland-Polonia Industry-Trade Chamber "Inter-Polcom" was established in Warsaw, in which foreign firms and enterprises are affiliated. The purpose of the Chamber is to develop and strengthen cooperation in the field of economic cooperation between Poland and Polonia abroad and foreign firms interested in investing capital in Poland. Recently the Sejm passed a law defining the principles of conducting economic activity by foreign individuals and corporations. It is generally believed that this law is the proverbial "green light" for Polonia firms. There is great hope that these firms will assist in the development of market production and that trade exchange with countries abroad will be revived. However, there is no lack of criticism, charging that the Polonia firms are following the line of least resistance--producing that which can be done most easily and is most profitable to them...

[Question] Wojciech Lesiewski: What is the concept of facilitating the operation of Polonia enterprises and foreign firms on Polish soil, i.e., in a country with a different political and economic system?

[Answer] Stanislaw Rakowicz: To reply in one sentence it should be said that the point is to involve the Polonia and foreign enterprises and their capital in pulling our economy out of the crisis. Let us begin with the fact, however, that this

concept has a long precedence in other socialist countries. For a long time now, both in the East as well as in the West, closer and more efficient forms of cooperation between capitalist firms and socialist enterprises have been sought. Trade exchange alone does not ensure that many opportunities for cooperation, fruitful for both sides, can be utilized. For example, we can point to the undertaking of joint ventures on third markets. But the question comes up-- where and how to search for partners for this cooperation? Of course, there is no lack of potential partners in the economic world, but not all of them show an interest in cooperating with our economy. On the other hand, it is certain for a long time that there is an interest on the part of Polonia to establish various economic ties with the homeland.

[Question] But does Polonia abroad represent a noteworthy economic and financial potential?

[Answer] Unquestionably in the Polonia communities small and medium-sized firms are the most numerous. But we should remember how many of these communities there are and what they represent in total. We are one of the few nations in Europe which has so many emigrants, or their descendants, scattered in various countries, on all continents. Some sources estimate the number to be 12 million, others say as much as 18 million. In any case, these are millions of people who can and should maintain ties with Poland.

[Question] So far as I know, even before the Second World War there was the problem of how these bonds can be tightened...

[Answer] In our country we always gave priority to cultural ties. And certainly they should not be the only and strongest form of contacts between Polonia and the homeland. It is no secret that throughout the entire world the most lasting ties are considered to be economic relationships. Therefore, with so many Poles abroad, scattered through practically the whole world, can it not be expected that--let us say--10,000 "Polonians" will be willing to invest their capital in our country? This would certainly be an impetus that would be felt in our economy. And at the same time, such operations would ensure that our goods are being heavily promoted on the foreign sales markets.

[Question] But for the present we are dealing with a considerably smaller number of Polonia firms...

[Answer] Of course. There are now approximately 360 of them. They employ over 10,000 workers and the trade turnovers attained by these firms last year amounted to about 15 billion zlotys. So this is still a rather modest production and trade potential. But the number of firms is increasing, and in 1985 there should be, in accordance with the government's program, at least a thousand of them. This movement is not some kind of temporary phenomena in our economic life.

[Question] Can we expect more perceptible effects on the domestic market this year as a result of the activity of this economic sector?

[Answer] Certainly we can. New production initiatives are springing up, often very interesting ones. Many Polonia firms, after familiarizing themselves with the conditions prevailing on the domestic market, are beginning to produce products

that have not been manufactured before in our country. They are also gradually expanding export of their products. This is very important in our economic situation because such actions serve to reinforce the revivifying economic processes, and the opening-up of new channels of trade exchange and cooperation with countries abroad is particularly important today.

I would like to stress a certain aspect of the activity of Polonia firms. That is, that they contribute in some degree to a more rapid development of small-scale production. Economists are generally in agreement that the ratio between large and small industry in Poland must be changed in the next few years. At present, small industry has only a 12 percent share in our total production. But in the GDR this share is 25 percent; in Hungary it is 30 percent; in the FRG and France it is 45 percent; to say nothing of Japan where 70 percent of those employed work in small-industry plants. Without a doubt a change in the structure of Polish industry is indispensable for the development of market production, to close the gaps in the product assortments, to react more quickly to the needs of the market. Obviously we should not overestimate the effect of the Polonia firms on these processes. Their share in total industrial production even in the future will not be higher than one percent.

[Question] Nevertheless we quite frequently hear complaints from representatives of key industries that the Polonia firms are "pirating" their workers because they offer them high wages.

[Answer] How extensive can this piracy be? Minimal. And if the wages in the Polonia firms are quite high, than that is good. It would be worse if the workers there were being badly paid, while the firms were getting rich on the excess profits. Anyway, the mystery of higher earnings is very simple: in the Polonia firms the amount of production per one production employee is twice that of the key industry plants. Work organization in these small plants is more efficient, and the small administrative staff plus the reduced-to-a-minimum personnel and service departments ensure lower production costs.

[Question] Are we not dealing, therefore, with resentment stemming from a fear that new competition has appeared?

[Answer] At this time it is difficult to talk about any kind of competition, for the depleted market is ready to absorb any quantity of goods. If, however, in the future, as the market situation normalizes, the Polonia firms constitute any kind of competition for state and cooperative plants, that should only be cause for rejoicing. It would then force both producers to improve their efficiency and their work organization, improve the quality of their products, ensure moderate prices for their goods, and make them scramble for customers. And those are precisely the conditions on the market, divested of monopoly, that we are all surely working towards.

[Interviewer] Thank you for the interview.

## Role, Problems, Restrictions

Krakow GAZETA KRAKOWSKA in Polish 4 Mar 83 p 4

[Article by Wojciech Zurawski]

[Text] During the mid-1970's contacts between Poland and representatives of Polonia were developing very successfully. A visit by Polish state authorities in different countries of the world, e.g., in Belgium, France, Sweden, or the United States, always, as one item on the agenda, included a meeting with Polonia businessmen. According to cursory statistics there are several thousand Polonians who are very wealthy, own large firms, and who were already then cooperating with the country of their forefathers. And that is how the idea of drawing Polonia into the economic activities of our country slowly grew.

The Council of Ministers Decree dated 14 May 1976 on "admitting" private capital restricted the sphere of activity to "crafts, hotel services, domestic trade, and restaurant services and other services". No one intended to return the Polish economy to private ownership or to do anything which would result in economic domination of the capitalist system. The clear limits of action on the one hand and the absence of laws and guarantees as to the duration of this economic form, on the other hand, were the basic difficulty in starting new Polonia undertakings. The first firm to be officially registered in Poland was Top Mart Company from Canada (Stanislaw Szewczyk), and the second was KONSUPROD from the FRG (Lothar Grabowski), in Warsaw. In Krakow the pioneer was Ryszard Markowski's (from Austria) Marold. The beginnings were very difficult since no one knew anything, the representatives of the local authorities were afraid to issue permits, the regulations did not define anything, and everything was viewed with distrust and some skepticism. Gradually, however, the number of firms increased. In 1980 there were already 76 firms employing 1,159 workers.

### The Right Size

The fact that Polonia firms are necessary to our economy is indisputable. But at the same time, without any great loss, we can exist without them. Proceeding from such a seemingly contradictory thesis, it will be easier to "dispose" of several myths and inaccuracies which arose around so fashionable a subject. In the first place, the law passed by the Polish Sejm on 6 July 1982 clearly and specifically states that the matter pertains to "the principles of conducting economic activity on the territory of the Polish People's Republic in **/small-scale manufacture/** [in boldface] (emphasis by author) by foreign individuals and corporations". Therefore, there is nothing said here that the sphere of small-scale manufacture will rescue our impoverished market, and that on the other hand, it will undermine the political principles of a planned economy. Sejm member (and reporter) Longin Cegielski from Nowy Sacz, in his introductory speech at the Sejm, said, among other things, and I quote: /In the interest of the reliability of information it should be reminded that foreign enterprises and those with foreign participation, operating in Poland within the sphere of small-scale manufacture, create and will create national income. They will not solve all of the problems of small-scale manufacture, and even more so, the problems in other sectors of the economy. They are really assisting in the partial alleviation of the market results of the crisis. That is why it is in our interest



for the Polonia firms to develop and this is in conformity with the assumptions of the economic reform that is being applied/ [in italics]. What those who find it hard to swallow the establishment of successive enterprises, shops, etc., have very quickly forgotten is the fact that every organizational unit operating on Polish soil must comply with Polish law and the concepts of the state's socialist development. To believe, therefore, that we should put a stop to such "capitalism", is an admission of failure to understand the assumptions of economic reform and the international division of labor. The opponents, among other arguments, cite the low commitment of capital in beginning to invest in Poland. This is true, but one should also know that bank credit cannot be obtained in order to conduct business in our country. For this reason, everyone invests out of his own pocket. Furthermore, no one is planning an undertaking the size of another Katowice Steelworks.

#### That the Market is Being Stripped of Technical Cadre is Fiction

The argument frequently put forth when the subject of Polonia firms is discussed is that trained cadre are being taken out of the state enterprises. That they are being enticed by huge, uncontrolled pensions, payments in dollars, luxury automobiles, money which cannot be spent. As of 1 Jan 1982 there were 154 firms, employing 3,500 people, of whom approximately 3,200 were women. Calculating by the arithmetical mean method, this comes out to 26 employees per one enterprise, of whom one has a higher education and two or three have finished secondary school. By the end of last year the number of firms almost doubled and on an average in one voivodship they employed three to five people with a higher education, six to 10 with a secondary school education, and the rest were manual workers. There are over 12 million people employed in the national economy, and the Polonia firms employed only 7,000.

The average wage in the firms is about 10,000 to 13,000 zlotys, although the specialists earn as much as 20,000. Is this little or a lot? That depends on for whom. But let us not forget that while in 1981 productivity in the economy dropped 18 percent, in the Polonia firms it rose 30 percent. Higher efficiency gives higher earnings. Again I refer to the principles of economic reform. Data prepared by the Poland-Polonia Industry-Trade Chamber "Inter-Polcom" show that the accusations by the Ministry of Finances relating to hoarding of profits are not correct. Verified information in the voivodship and gmina offices shows something totally opposite. In 107 firms 850 million zlotys were allocated for the enlargement of fixed assets last year. For example, the firm "Damari" in Bielsko Biala invested 60 million zlotys out of a profit of 142 million zlotys; the firm "Marco-Electronics" in Krakow spent 12 million zlotys. These firms not only strive for rapid earnings and liquidation of the business after 5 years, but they invest money in ventures that are very important for our economy.

The Polonia firms are accused of using Polish raw materials and semi-finished products in their production, instead of importing materials for foreign-exchange from the second payments area [capitalist countries]. One of the tasks, when the firms began to operate, was to be the utilization of local raw materials. The figures used by the State Trade Enterprise and the Ministry of Finances showing that 87 percent of the supplies, calculated in terms of value, come from domestic raw materials, do not reflect the actual facts. For example, consumption of 1 meter of domestic material purchased at 750 zlotys, and 1 meter purchased for foreign currency at

three dollars, i.e., 240 zlotys, gives a ratio of 3 to 1. This is based on the official exchange rate for the dollar. Furthermore, supplies in the hands of Polonia firms make up hardly two percent of the total deliveries for domestic purchasers, thus accusations of overbidding, price-beating, and in effect, blaming these firms for the lack of supplies in our shops is totally unrealistic. But assuming that this 87 percent of supplies comes from domestic sources, even then as much as 95 percent of the production goes to the shops and other enterprises in Poland, therefore the balance is almost zero. Charges pertaining to lowering of prices for export and employment of various dumping tricks in order to shift part of the foreign-exchange profits, were not proven to be true in an inspection. On the other hand, it is extremely easy to spread such gossip.

During the past year, a particularly difficult one in overcoming economic difficulties, the Government Presidium established a system of operational programs in those fields where stimulation of the economy appeared to be indispensable. In 1982, 67 percent of the Polonia firms were covered by operational programs. In order that this statement not be groundless, let us give several examples. The firm BALT produces, among other things, epidural catheters for painless childbirth. Heretofore we imported these disposable catheters for foreign currency--now we can have them for zlotys.

"Cezal" Medical Equipment office has already signed a contract and is buying up all of the production. "AMEPOL" supplies optical equipment for ophthalmology and eye surgery, colorimeters for the study of enzymatic liquid solutions, optical-observation instruments, and gynecological specula. The firm "IMPOL" produces induction sensors for injection molding machines and second generation automation systems using microprocessors. Many more such examples could be given. Polonia firms should not be judged solely through a prism of shampoos, jeans, and ketchup.

#### What Should be Changed to Make Things Better

There are several matters which should be settled. Everyone beginning economic operations should know the market situation and what the attitude of the public is. It is from this that the need to maintain an unblemished reputation arises. Just as in state enterprises, cooperatives and among craftsman, there are the scoundrels who want to get rich quickly. That is why "Inter-Polcom", to which the firms belong, should be concerned about their good reputation and the selection of authorized representatives. I learned at the Office of the Government's Plenipotentiary for Affairs of Foreign Small-Scale Manufacturing Firms that two permits to operate have been cancelled because the firms did not comply with the rules. There must be better inspection of the quality of production. To be a Polonia product it must be good, and not the same as the national average. I already wrote about this a couple of months ago. I believe it to be advisable to introduce a Polonia mark of quality, which would indicate to the customer that these products are special. Firms producing nonsaleable goods must pay a fine. Nor should they, at any price, strive to immediately own their own shop. Trade has nothing to sell and there is a lot of free space in the shops. Instead of separate premises, the use of two or three stands would be the best solution. Also, it is high time that a suitable selection of new permits be made. There should be a prior determination as to what range of activity is of interest to authorities in a given area. We

already have enough ready-to-wear, and local raw materials and production scraps, etc., are available. But there must be a normal tender, submitted to "Inter-Polcom" and then, through their intermediation, further, abroad, to concentrations of potential investors.

A "Polonia Investor Code" is now being prepared which is supposed to be the unofficial savoir-vivre of the Polonians. It contains a good many suggestions, including this one: "We warmly support ("Inter-Polcom") further participation in the social aims of the gmina and participation in Poland-wide charitable and social campaigns."

The subject of Polonia firms is not simple or unequivocal. It is important, however, that in quarreling we do not "throw out the baby with the bath water". In conclusion, for the opponents, I will cite the statement of Stanislaw Opalka, member of the Politburo of the PZPR Central Committee, and Voivodship Committee first secretary in Tarnow, made to the "Inter-Polcom" informant in November 1982. I cite: Question: "What really is the relation of our authorities to the Polonia firms?" Answer: "I do not represent the government authorities, and if the party authorities were to be against it, then these companies would not be springing up. From the ideological standpoint, there is no fear that they will unsettle the socialist system of production in effect in Poland. Their activity lies in the interest of the state and it is understandable that it is in the interest of those who invest capital. But it is a basic fact which must be taken to be a rule: we do not want anyone, taking advantage of our difficulties, to invest capital in order to get rich quickly. This is a long-range state policy aimed at meeting the needs of our market with due profit to the investor."

#### History, Recent Accusations

Warsaw KZECZYWISTOSC in Polish No 10, 6 Mar 83 p 8

[Article by Tadeusz Lojowski]

[Text] Until recently the interest of the Poles abroad in their fatherland was more platonic, but in the last few years it also encompassed economic problems. After all, Polonia businessmen do exist. The Polish side, particularly the Association for Liaison With Poles Abroad "Polonia", proposed specific forms of interest by organizing, together with other institutions, a series of meetings in connection with the Poznan Fairs, called Polonia Economic Forums.

In 1972 the government's work plan assigned the ministries the task of establishing technical and economic cooperation with "Polonia". Its ties with our country were to be strengthened, but primarily the goals were economical. The idea was to introduce into the Polish economic market flexible, dynamic organizations which would, more easily than others, understand the specific nature of economic organisms and which would revitalize the especially neglected small-scale manufacturing and services sector.

This idea did not clear a path for itself without encountering thorns, and some of them are still there. Finally in 1976 the applicable decree made it possible for these enterprise to begin operations. Initially there were problems, for both



sides did not possess the necessary discernment, and it was not until 1977 that three permits were issued for the establishment of Polonia firms. In 1978, nine permits were issued; in 1979, 18; and in 1980, 46. In 1981, there were already 68, and during three quarters of 1982 there were as many as 164.

Firms were established in 27 provinces. Most of them operate in Warsaw, Poznan, Bielska Biala and Siedlce—we are talking here about provinces. In 22 provinces no enterprises were established (possibly this has changed but it does not cancel the general trend, and it is also worth noting that none of the already-established firms has been liquidated).

By the end of the first half of 1982 there were 219 firms employing 6,400 people, which constituted 0.3 percent of the total small-scale manufacturing. Turnovers for this period amounted to 6 billion zlotys (by 30 October, the figure was 10 billion). Of this, production valued at 4.5 billion zlotys reached the market; deliveries to supplies for domestic enterprises amounted to 950 million zlotys; services, 190 million; and value of export amounted to 250 million zlotys, which at the official exchange rate is about 3 million dollars. The Polonia firms brought into the economy a foreign-exchange "input" of 5.6 million dollars. It is calculated that by the end of 1982 turnovers totaled 15 billion zlotys and constituted 6 percent of the total turnovers of all of the small-scale production in Poland. The number of permits issued by the end of 1982 is estimated at under 400. This does not mean that this many of them began operations.

Approximately 50 of the existing firms conduct export activity, half of which is with good results. Many firms are in the process of organizing and preparing themselves for export activity. Most of the firms work for the domestic market.

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The parliamentary law dated 6 Jul 1982 on the principles of conducting economic activity in the Polish People's Republic in the area of small-scale production by foreign individuals and corporation, and particularly Polonia firms, was a milestone on the road to development of Polonia firms. This law provides that in order to establish a firm it is necessary to make a founder's deposit to a bank amounting to from \$10,000 to \$50,000. This deposit can be withdrawn after the investment has been begun. The provincial governor issues the permit for establishment of the firm. The firm must have a fully-empowered representative (agent) who is a Polish citizen, or an agency in Poland. It pays a 6 percent turnover tax. Firms established after December 1981 are exempt from income tax for 3 years (those established before that are exempt for only 2 years). After this time elapses they pay a 50 percent income tax. Foreign-exchange operations take place exclusively through Bank Handlowy [Commercial Bank]. Import and export permits are issued by the Ministry of Foreign Trade. The owner, his children, and his parents, can, in Poland, spend the zlotys profits from the firm's economic operations.

The Polonia firms are required to keep accounts reflecting their financial activity. They can go into partnership with Polish small-scale manufacturing enterprises, but this is not too attractive for most Polish craftsmen because of the tax considerations.



The principle areas of production of the Polonia firms are children's, youth's and sports clothing; cosmetics; personal hygiene items; household cleaning agents; construction materials; plastics; fruit-and-vegetable processing; silk-screen printing (labels); spare parts; soles for footwear; and even footwear.

Insofar as export activity is concerned, the Polish authorities have decreed that raw materials not constitute more than 50 percent of the export value of the goods. There is controversy as to how the value of the labor input and raw-materials input is interpreted. The representatives of the Polonia firms appreciate the July 1982 law but believe that many of the executory acts should be more explicit. They have reservations as to the nonuniform (in their opinion) duty policy in import. In export the rule requires that 50 percent of the clear profit from export must be resold by the Polonia firms to the state in foreign currency.

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Despite the fact that these are only the beginnings of a new form of economic activity, for some time now considerable material has been appearing in the mass media on this subject. Most of it is a criticism of the Polonia firms, although recently there have also been articles that have been positive in their assessment of these activities. Nor has there been a lack of statements by representatives of high state offices. The press articles are, in this case, a reflection of public opinion, but on the other hand, the press also shapes this opinion.

The loudest charges made against the Polonia firms are the statements that they deliver poor-quality goods to the market, but at very high prices; that the Polonia firms are taking the highest skilled workers away from other sectors; that owners of Polonia firms take money out of the profits for their own use, instead of investing it; and that they do not contribute much foreign exchange to small-scale manufacturing.

The representatives of the Polonia firms, and not they alone, express the opinion (at meetings with journalists who concern themselves with Polonia matters) that the many voices of criticism in relation to the Polonia firms are an expression of fear on the part of some circles connected with small-scale manufacturing and trade (including foreign) of competition from the dynamic Polonia enterprises.

The Polonians say, with bitterness, that the present campaign can lead to their disappearance from our economic life. I believe such statements to be an exaggeration.

Meanwhile, Poland-Polonia Industry-Trade Chamber "Inter-Polcom" has received reports that some provincial governors, as a result of this campaign, are refusing to register new Polonia firms.

In general, however, the representatives of all of the involved ministries with whom I talked, without reservation, give good grades to the activities of the Polonia firms. No one had any comments as to the size of the workers' earnings (according to "Inter-Polcom" figures they average slightly over 13,000 zlotys monthly per employee).

It is agreed that the labor productivity of the workers in the Polonia firms is higher--much higher--than of workers in other sectors of small-scale manufacturing, and that the managers of these firms are efficient, practical and hardheaded. Those who are involved believe that there is still a large place for the activities of the Polonia firms.

There is, in addition, another element: the cooperation of the authorities with these firms and the inevitable--small or large--differences in opinion or interests constitute a kind of dry run preceding a larger operation. That is, that the Planning Commission has prepared and submitted to the government a draft law on partnerships with foreign participation. These would be partnerships of our large enterprises with large foreign enterprises, i.e., cooperation with large capital, and also contact with the newest technology--obviously not on the model of the 1970's.

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There is still the matter of criticism on the question of prices and quality. Already at the Poznan Polonia Economic Forum in June 1982, representatives of some Polonia firms accused a few of them of being unconscientious and jeopardizing the reputations of the remaining ones. This pertains to probably the most visible firms which have their own shops and sell goods of a quality that does not conform with Polish standards, at escalated prices, taking advantage of market conditions. The same pertains to owners who take large sums out of the firm's receipts. These are normal symptoms, unfortunately, of a pathology that must be gradually reduced and eliminated through the actions of market laws, the actions of financial authorities, and the influence of peers within most Polonia firms. This group also proposed that before permits are granted for establishment of a firm, the Polish bank obtain a report on the candidate from his own bank abroad.

The problem of unreliable firms was discussed at a scientific symposium held in Poznan late in January. It was acknowledged that even in the best company someone irresponsible may appear.

But insofar as the pirating of skilled workers is concerned, that was acknowledged to be a myth (just as it once was between crafts and industry) which was generated on the basis of single instances. In any case, Longin Cegielski, deputy to Parliament and reporter on the draft law on Polonia firms, dispelled that myth back in July 1982, making use of exact numbers.

#### 'Inter-Polcom' Activities

Gdansk GLOS WYBRZEZA in Polish 31 Mar 83 p 5

[Article by Jerzy Niepokulczycki]

[Text] The development of foreign enterprises operating within the framework of small-scale production ensues from three basic premises. The first of these is the existence of a Polonia abroad, estimated at 10 or even 18 million people. It became obvious that the ties of Polonia with our country have great political and cultural significance both for us as well as Polonia itself. Economic cooperation

with Poles abroad is a new but important element in the overall policy of the government towards them. It encompasses foreign trade (export to Polonia firms mainly in the 1970's), coproduction, and the newest form: direct investments by Polonia in Poland.

The second premise is the policy of socialist countries in the area of East-West cooperation within the framework of peaceful coexistence.

The third premise is related to the necessity for a rapid change in economic structure aimed at developing small-scale manufacturing and reducing the degree of concentration of production and employment. An economy whose production and employment is highly concentrated has a tendency to monopolize production and trade, is not very susceptible to market requirements, and is very difficult to control from the top level with the help of economic instruments.

The spokesman for the interests of foreign enterprises, and also the plane of contacts between these enterprises and others, is the Poland-Polonia Industry-Trade Chamber "Inter-Polcom", which now has four local chapters.

The chairman of the Social Council of the Northern Chapter of the Chamber is Lukasz Balcer, to whom I directed several questions concerning the tasks and work of the Chamber, and problems of the foreign enterprises.

--Perhaps we should begin with a short description of "Inter-Polcom".

--The Poland-Polonia Industry-Trade Chamber "Inter-Polcom" was formed in 1977, and during its first 4 years functioned within the Polish Chamber of Foreign Trade. In the fall of 1981 "Inter-Polcom" separated itself from the Polish Chamber of Foreign Trade and became an independent association with legal status.

The establishment of a Poland-Polonia chamber was the result of the economic activity conducted for years by the Association for Liaison With The Poles Abroad "Polonia". "Inter-Polcom" still cooperates closely with "Polonia" and the Polish Chamber of Foreign Trade.

Membership in the chamber is voluntary and includes both foreign and domestic members. The domestic members are Polonia-abroad enterprises, individuals of the socialized economy as well as unions or associations. The foreign members are merchants and industrialists, mainly of Polish descent, who maintain various forms of ties with Poland.

The chamber--and this is its basic task--acts to develop and strengthen cooperation in the field of economic relations between the Polish People's Republic and foreign persons and firms interested in conducting economic activities in Poland, and in particular with the Poles abroad. The chamber conducts its activities both here and abroad. These activities are directed at obtaining persons of Polish descent and other persons and firms to establish partnerships or firms in Poland. Here in Poland "Inter-Polcom" acts as a representative of Polonia-abroad firms and as a spokesman for those circles that are interested in cooperation with foreign capital and in the development of Polish export. The chamber undertakes a number of

initiatives. It proposes, for example, issuance of pertinent legal regulations facilitating development of Polonia enterprises, organizes training for management cadre of the Polonia firms, etc. It also cooperates with the ministries, and particularly with the Office of the Government's Plenipotentiary for Affairs of Foreign Small-Scale Manufacturing Firms, foreign trade, and provincial offices.

--What do you think about the July 1982 law on foreign enterprises?

--The passage by Parliament on 6 July 1982 of the law on the principles of conducting economic activity in the field of small-scale manufacturing on the territory of the Polish People's Republic by foreign individuals and corporations is of historical significance for the conduct of economic activity in this field. This is so because through a legal act of the highest order (for the first time) the principles of this activity, its scope, the procedure for issuing permits, taxation and granting of credits to firms, use of profits, rental of real estate, etc., have been regulated.

--Are the executory regulations to the law complete and do they conform to the spirit of the law?

--The law dated 6 July provides that a series of executory acts will be issued which will specify in detail the general principles that are embodied in the law. This will pertain to at least seven matters. Some of the executory acts have been issued by the Ministry of Justice on the subject of registering foreign firms, but not all of the ministries have yet regulated the matters required of them by the law, and this is an important and urgent item.

--Is bureaucracy not creeping into the foreign firms?

--Bureaucracy in foreign firms? Thus far they are characterized by good work organization and rational employment. On the other hand, problems could appear, which all enterprises operating in Poland encounter. After all, the Polonia firms operate on the basis of Polish regulations governing social matters, employment, environmental protection, financial-accounting principles, etc.

--What does the Chamber intend to do so as to improve and facilitate the operations of the foreign firms within the framework of our economy?

--The question concerns the activity of the Chamber's board, which encompasses the entire country. I believe that these will be activities based on joint participation in the preparation of executory acts, supplies of fuel and others pertaining to matters relating to the 6 July 1982 law. This will facilitate and improve the operations of the firms that belong to the Northern Chapter of the Chamber. The chapter itself, on the other hand, in addition to its regular tasks relating to exchange of experience and training, will continue to give assistance in establishing and running firms. Substantively, the most important task is that of increasing production and services for the needs of the market and for export, with the help of the Poles abroad. Managing this process is the constant and most important task of the chamber and the chapter, and to do this the existing difficulties must be eliminated.



--Are the ground rules for these firms sufficiently permanent to enable them to prepare a longterm cost-effectiveness analysis?

--I believe that the Polonia firms are a permanent element in our structure. Otherwise the law would not bring them into our economic life. A number of other socialist countries did this a long time ago.

The Chamber has called upon the small and medium-sized Polonia capital. We would like to include Polonia in those fields which the state, for various reasons, has not developed. This might include the production of foodstuffs, help to farmers, coproduction with industry while giving priority to the purchase of new technology and equipment, etc. I believe that within this framework the activity of Polonia firms will be constant.

As to longterm cost effectiveness, the effects of the economic reform conducted should be considered. In connection with this, the Chamber instructed that a professional study be made of the problem of the economic activities by foreign individuals and corporations and the prospects of the development of cooperation with Poles abroad.

--And what can be said about forecasts and prospects?

--The Northern Chapter of the Chamber, which includes within its scope of activity the Gdansk, Bydgoszcz, Torun, Elblag, Koszalin, Slupsk and Olsztyn provinces, has a membership of 41 Polonia firms. Considering the great interest of the Polonia circles, the friendliness of the authorities, and also the steady development of the firms operating in Poland, it may be said that the Poland-Polonia firms and "Inter-Polcom" have an opportunity to develop successfully.

To this last statement by my interlocutor on the subject of forecasts and prospects we should perhaps add that the greatest quantitative development of the Polonia firms in Poland occurred during the period of martial law, i.e., in 1982, in spite of the tendencies to break off economic contacts with Poland by a number of the western countries from which these firms come.

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DILEMMA OF SCARCE-GOODS VERSUS SCARCE-MONEY ECONOMY ANALYZED

Warsaw POLITYKA in Polish No 23, 4 Jun 83 p 5

[Article by Jozef M. Toczek: "No Slowing Down on the Curves"]

[Text] Black marketeering and corruption have become obvious symptoms of the economic crisis in which we find ourselves. A drive is being waged against speculation and the black market in the mass media, and teams have been formed to combat them.

The road to market equilibrium is usually viewed in terms of production growth. The three-year plan provides for balance to be reached in this way by 1985. The conviction that a rise in production is enough is as erroneous as the view that balance can be achieved by combatting black marketeering, because it is necessary to develop more realistic economic criteria for assigning values to product scarcity (prices), human production resources (wage scales), and other production resources (exchange and interest rates), as well as restricting the outflow of fiscal resources (money) and bank resources (credit).

Money Without Backing

In this context it is especially timely to view the deliberations of V. Novozhylov, a Soviet economist who is no longer living, as contained in articles he wrote in the 1920's, because they refer to the very absence of market equilibrium accompanied by inadequate production.

According to Novozhylov, the main factor underlying underproduction of commodities is excessive fiscal and bank printing along with "noncommercial" [commercially unrealistic] prices on commodities. For the government, the printing of money is the most convenient means of action, because the population is opposed to taxes, and for loans trust is needed, but then this overprinting leads to the breakdown of the economy, the society, and the state. Given the increase in the printing of banknotes, everyone suddenly tries to get rid of the inflated money, which is no longer worth anything. Overprinting of banknotes is sort of a uniform tax imposed on money in keeping with the amount of time it is held.

The greatest decline in the tendency to sell and manufacture for sale occurs where cash turnover is the slowest, that is, in rural areas. Expenditures in rural areas are less frequent. It is more difficult to spend money there. The rural areas' restriction of sales does not stem from the peasant's particular psychological characteristics but from sound economic calculation. Excessive printing of banknotes has an impact on trade between town and country. As Novozhylov puts it, extreme difficulties in transportation have been created around the towns, as though they had been surrounded by mountain ranges through which no roads have been constructed or swampland had suddenly appeared, in the form of substantial taxes paid to the state. This is the main reason of the food shortage in towns so typical for an economy which is printing money and for the more rapid decline in the supplies of farm products than in that of manufactured goods. Being easy to store, grain shows a particularly sudden drop in procurement and becomes a substitute for money. Novozhylov concludes therefore that the food problem of the cities cannot be resolved if too much money is printed, and this is the very reason why the state must stop doing this.

The introduction of ceiling (official) prices, which is a manifestation of the shortage of goods, further deepens this problem and causes speculation and black marketeering to flourish. Novozhylov writes that after the introduction of rates (price ceilings), goods disappear from the legal market altogether. After the market narrows, it escapes underground and prices show a further increase, because the illegal market demands not only payment for the risk but also for the tremendous effort involved. What a single retail shop does is now done by hundreds of small black marketeers. The attractiveness of underground trade draws people who had previously been engaged in production, he concludes. He writes that it is naive to think that the development of black marketeering and its related excesses are caused by a sudden breakdown in the society's moral attitude. No, he says. People's moral attitude remains unchanged, but there is a change in price policy. Unprofitably low prices are the ground upon which black markets grow in keeping with an inevitable natural law.

The greater the share of commodity production that is sold at low official prices, the higher the black market prices are. If all the goods fell in the hands of the black market, their free-market prices would immediately decline, but the shortage of goods for consumers would be eliminated. The prices would be higher than the official prices, but the lines would disappear. Novozhylov asks why it is not legally permissible for black marketeers to become rich, inasmuch as by becoming rich they serve the useful function of supplying goods to those in need. The black marketeer's increase in prices does not incur any outlays and is therefore a "free benefit." Hence, becoming rich in this way is unjustified the same as collecting a fee for the air.

## When a Price Is Not a Price

The basic factor causing a shortage of goods is excessive production of the means of production, which leads to a shortage of raw materials and fuel. In the battle for these latter things the producers of the means of production are in the better situation, because their products become more expensive to a similar extent as raw materials and fuel do. On the other hand, the position of the producers of consumer goods is weaker, because their price increases are restricted by the population's income. On the other hand, this is a Pyrrhic victory, because a recession in the consumer goods industry makes additional means of production unnecessary. Therefore, the crisis in general overproduction is replaced by a crisis in underproduction.

The policy of "noncommercial" [commercially unrealistic and unprofitable], low prices unrelated to demand is an element foreign to the sphere of a cash economy and goes against all economic relations, leading to chaos in the distribution of real income. Owing to price differences between the official market and the free market, cash income is not the same thing as real income. It is not enough to earn money. You have to know how to use it to buy goods at official prices. The one who comes out ahead is the one who is closest to the flow of scarce goods sold at official prices. Thus the town stores a larger share of goods than it is entitled to given the supply and demand.

When the price ceases to play its basic role of balancing supply and demand, the cash economy ceases to serve its limiting and control functions (that is, that of control of production through the market). This pushes the economy towards centralization and leads to the disintegration, primitivation, and naturalization of economic relations. There is a dramatic decline in the quality of human labor. Where one employee used to suffice, now two or more are needed. In order to regulate the limited supply of goods it is necessary to create a special state and social apparatus, which draws people away from production work. Then come paralysis and corruption in the state machinery.

## The Illusion of a Rise in Production

The general demand called for by right thinking is that the way to overcome the shortage of goods, as has been mentioned, is to increase their production. But Novozhylov says this is not so, and he presents mathematical proof for his contention. When sales are made according to direct costs, the greater the shortage of goods, the greater the increase in production, because alongside the rise in production there is an increase in people's income. The elimination of a shortage of goods, therefore, depends not on the ordinary development of production but on how the income growth related to the expansion of production trails behind the rise in consumer-goods production calculated in official prices. Shortages of goods increase not only when unprofitable production grows but also when there is an expansion of production covering direct costs. Then there is an improvement in the income not backed by consumer goods in the pockets of manufacturers of the additional means of production needed to increase production of consumer goods.



Generally speaking, the rise in official prices reduces the profits of private trade and black marketeers. It reduces urban consumption, and for this very reason increases the supply of goods in rural areas and causes prices to decline there. Novozhylov calls this process the unification of money for which up until then there had not been enough goods. The gathering of excess money comes to an end, as the population's demand proves inadequate to buy up all the production at the elevated prices.

The increase in the buying power of money can be harmful to wage increases. If industry does not make it through the temporary period of the shift of excess money and raises wages in keeping with labor productivity, the whole operation will be ineffective, and the shortage of goods may be interminable. For this reason, according to Novozhylov, elimination of the shortage of goods requires some willingness to make sacrifices. During the period that the shortage of goods is being eliminated, it is necessary for consumption to be restricted temporarily in the towns so that it can be increased in rural areas, as Novozhylov puts it: up until the rural areas can make good on the drafts, which had no backing up to that time.

#### Acceleration on the Curves

Here we should mention that Novozhylov attaches too much significance to price increases. From practice we know that state enterprises are not sensitive to a rise in prices, if the system of providing them with financing is not rigid. This was pointed out more than half a century ago in response to Novozhylov's articles in the writings of Hungarian economist Janos Kornai, who called for the introduction of "hard cash-financing restrictions" with respect to state enterprises. It is not a question of not permitting or of limiting situations in the cases where:

The party paying can have an influence on the level of taxes the collection of which is also not unconditionally carried out;

The producer sets the price in monopolistic structures of the economy, where the market is not balanced, or the economy is isolated from international markets,

Credit is granted to enterprises without guarantees that deadlines will be met for repayment,

Investments are carried out without rigid adherence to the repayment of credit out of which they are financed,

The enterprise can obtain nonrepayable subsidies for development, for ongoing operations, or for covering losses after the fact.

The analysis and recommendations made by Novozhylov more than half a century ago and especially the remarks of J. Kornai still apply in rela-

tion to the economy of the the Polish People's Republic. Despite the implementation of the reform, it is still an economy oriented toward the printing of money, one which features a "noncommercial" price policy, a shortage of goods, a low rate of interest and exchange rate, a budget out of balance, and, despite the declarations, "soft" cash-budget restrictions. The falsified parameters do not make it possible to make optimal decisions concerning the utilization of resources.

The problem of developing more realistic criteria for assigning values of course has its political dimension. For the entire society it is a choice between whether it prefers a shortage of goods related to lines, the black market, and corruption or a shortage of money which will provide an incentive to work but will have inherent in it difficulties with getting work. For the urban population this is a choice between a temporary restriction on the extent of food shortages. For the authorities [words missing]... on behalf of rural areas and growth...a choice between direct steering by directives and the creation of an indirect economic steering mechanism.

In the discussion on developing more realistic criteria for assigning values, there has been and still is a great deal of demagoguery. Opposed to such development of more realistic criteria are false spokesmen calling for a "soft-hearted" approach in relation to money which is not theirs, often because this means access to allocations, coupons, or official-price vouchers. They drown out advocates of belt-tightening on the part of the state who are striving to make it possible to buy sought-after goods at official prices using money which has been earned rather than using one's connections or bribery. The position of the former, hidden adversaries of the reform, objectively favors maintaining the black market, because it backs the mechanisms and structures which black marketeering generates.

The development of more realistic value-setting criteria may have various social effects both negative and positive, owing to the distribution of income. The negative effects can be avoided or greatly reduced on the one hand by the active, precise application of instruments of social policy and on the other hand through the creation and application of sound tax policy.

The development of more realistic economic parameters requires that the government indeed make a lot of decisions, but there is proof that it does not have trouble here. Despite preventive action by officials, delays in the development of these more realistic economic parameters will lead to the country's economic collapse, to greater corruption and black marketeering, and to the younger generation's not being used to putting money away in savings. More realistic economic parameters have been developed by countries poorer than Poland, including socialist countries. The continuation of the course initiated by the price reform is like driving a front-wheel drive car. On the curves you cannot brake. You have to accelerate.

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CSO: 2600/999

**COMPLEX PRODUCER GOODS PRICING MECHANISM CRITICIZED**

Warsaw GOSPODARKA MATERIALOWA in Polish No 9, May 83 p 263

[Article by Andrzej Runo: "The Problem of Changing Prices for Material Supplies"]

[Text] I want to introduce a very important element of the economic reform, i.e. setting of supply prices. The current functioning conditions at industrial enterprises (I can talk only about those enterprises) are very different from the conditions presented by the mass media. While listening to television discussions on this subject, discussions in which individuals responsible for implementing the reform and authors of many solutions presented their views, I came to sad conclusions when I compared statements of those individuals with hard realities of our daily lives.

It seems to me that there exists a substantial divergence in understanding ideas and ways of implementing the economic reform between the so-called central authority that introduces the reform decisions and the so-called grass roots that do not always fully understand concepts they are supposed to implement.

The adopted general ideas and solutions issued in specific legal acts are seen as determining the reform directions, and this is as it should be. However, the details are treated as unbreakable taboos. I believe that this is wrong. Let us figure out whether industrial enterprises were given the right premises for controlling prices effectively. I will try to show that this is not the case, using metallurgical products as an example. The adoption of decisions that cannot be fully understood, are not fully justified, are often contradictory, and create a feeling of being only temporary, instead of presenting a long-range, goal-oriented view does not make for a stable foundation allowing enterprises to function efficiently.

First I would like to point out that the principle of freedom of choosing the enterprise's supplier is an unrealistic ideal under the circumstances. It only causes misunderstandings in explaining the enterprise's autonomy.

For example, in 1983 the following principles were in effect, caused by different sources of purchases:

1. Purchases made directly from the steel mill--the 1976 rates multiplied by the 1983 coefficient.
2. Purchases made through the Centrostal--the 1976 rates multiplied by the 1983 coefficient plus the trade margin (different for the four groups of voivodships set by the Price Office from 4.8-7.3 percent).
3. Purchases from other enterprises--as above plus purchasing and sales costs (those applied in the country are set from 3.5-80 percent of the basic price, and the upper limit is not specified).
4. Purchases of smaller amounts of goods through the Centrostal--according to retail prices.

There are also maintenance, labeling, the OT [Local Department], and other costs. In other branches there are similar regulations with different fees, coefficients, etc. It seems that it would be difficult to design a more complicated pricing system. I doubt that such a complicated price system could be found anywhere else in the world.

Imagine the situation when the enterprise has over 20,000 kinds of materials. How could the final product's correct price be determined when so many different regulations, coefficients, factors, etc. have to be considered? How can branch experts examine and determine whether the price and fees on invoices are correct (which is their duty)? They are forced to improvise. In case of a financial inspection every adopted or calculated price of the final product can be questioned. Under favorable conditions it can be very close to the correct cost, but it could be very different as well.

In conclusion, it should be said that before introducing price controls we have to eliminate all arbitrary, vague, and doubtful regulations. In particular, uniform regulations are needed for, e.g. upper and lower limits of fees and coefficients, as well as determination of which fees are allowed and which illegal.

It seems that enterprises with a substantial production potential should be consulted in this matter. Also, it is time to give some thought to a training program on price-setting.

[The Editorial Staff] We understand difficulties concerning the use of variable prices with a high degree of variance by material suppliers and enterprises planning and calculating production costs. However, the example of metallurgical products is not typical since they are covered by official prices. In any case, the reader's letter points to a very important problem, i.e. the need for examining the supply price system functioning and the necessity of adapting the supply service organization to new conditions in which those services will have to function concerning precontract price negotiations and price control. The enterprise's profit will depend largely on solving this problem since a considerable part of expenditures from turnovers is directed to the purchase of raw and other materials and semifinished products.

9959

CSO: 2600/1000



## MINISTER CHALLENGED ON MATERIALS CONSERVATION INCENTIVES

Warsaw GOSPODARKA MATERIALOWA in Polish No 8, Apr 83 p 228

[Article by Lech Kowalewski: "The Lack of Effective Materials Management Incentives Continues"]

[Text] In Minister of Materials Management Jan Antosik's letter "The Current Materials Supply and Management Problems" (GOSPODARKA MATERIALOWA No 23-24/82) I was especially interested in the part concerning the supply management.

The minister of materials management writes that in 1982 "there were relatively few cases of decreased fuel, energy, and raw and other materials consumption per production unit." He hopes that the situation will improve based on the economic-financial principles that are now in effect.

What I would like to know is which specific economic-financial principles that were in effect in 1982 were supposed to--according to the author--serve as incentives for efficient materials management in enterprises? I would like to state the opposite thesis, i.e., that the economic reform introduced by the resolution No 243 constitutes a serious anti-incentive for the widespread materials waste taking place in our country.

For example, income tax rates are contingent on the profitability level achieved by the enterprise. For enterprises that achieve a profitability of 30 percent and over (such enterprises are in the majority\*) the income tax rate can be calculated according to the following abbreviated formula:

$$0.9 \times Z - 0.12 \times K$$

Z--profit (more exactly, a positive financial outcome)  
K--processing costs

The profit remaining in the enterprise after the income tax has been paid (so-called distributable profit) equals:

$$0.1 \times Z + 0.12 \times K$$

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\* In his article "Earning Performance of Enterprises" (ZYCIE GOSPODARCZE No 45/1982) M. Misiak states that for 2300 surveyed state industry enterprises as many as 1800 achieved profitability over 30 percent and 1200--over 50 percent in 3 quarters of 1982.

For example, the enterprise that achieves the profit equalling 100 million zlotys pays to the state budget the income tax equalling:

$$0.9 \times 100 - 0.12 \times 50 = 84 \text{ million zlotys}$$

The profit remaining in the enterprise equals 16 million zlotys. If the enterprise increases the cost by 10 million zlotys (which could cover deficit supply goods), it would pay the tax equalling 82.8 million zlotys. The enterprise's profit would be 17.2 million zlotys. This is advantageous to the enterprise. But does it benefit the national economy?

Thus, the expensive price-setting formula is functioning in practice. This formula does not encourage the enterprise to decrease its costs. The enterprise can always cover its mismanagement of materials by setting higher contract prices for its products. Thus, somebody else pays for the mismanagement.

The above examples show that systems-type solutions do not encourage effective management. In this context, the statement of the head of the office responsible for effective materials management in the whole country that is quoted at the beginning of this article does not seem right. I would prefer if the minister told us why such ineffective solutions were adopted as a part of the reform: did special factors cause this or was it simply a mistake? Is the UGM [Materials Management Office] planning to present to the Economic Reform Commission a specific program of systems-type changes that would encourage enterprises' interest in efficient use of production factors? I believe that the UGM guidelines on prizes for fuel, energy, and raw and other materials savings will not solve the problem. The same goes for gathering secondary raw materials that is being encouraged (cases of holding back procurement of waste paper in some voivodships, described in daily papers are scandalous). Quick and radical solutions to the problem of efficient use of production factors will benefit all of us.

9959

CSO: 2600/998

PROPOSED CHANGES IN WORKER REMUNERATION JUSTIFIED

Bucharest ERA SOCIALISTA in Romanian No 8, 25 Apr 83 pp 7-9, 44

[Article by Univ Reader Dr Mircea Bota: "Correlation Between Principles of Distribution and Results of Work"]

[Text] As Nicolae Ceausescu said at the Plenum of the RCP Central Committee of 23-24 March 1983, "Let us guarantee everyone the right to work according to his training and ability, but let us guarantee no one the right to income without work. Everyone is to have income and remuneration in proportion to the work performed! Incomes are to be in proportion to activity and results obtained in production."

Among the measures to further improve the economic-financial mechanism, an important part is to be played by improvement in remuneration for work through more consistent application of the socialist principle of distribution in proportion to the work performed and closer correlation of every workers' individual incomes with production, labor productivity, economic effectiveness, and better use of raw materials and manpower.

The whole system for improving the workers' remuneration and distribution of their incomes is based on Nicolae Ceausescu's innovating conception of the all-around progress of Romanian society, which has lent new dimensions to the party's whole economic policy of enhancing the entire people's prosperity. Accordingly the special programs for improving the living standard and quality of life prepared at the suggestion and with the direct participation of the party secretary general are of particular importance.

The Program for Implementing the Decisions of the National Party Conference on Workers Remuneration and Distribution of Their Incomes, which was approved by the Plenum of the RCP Central Committee of March 1983, lays the foundations for improving remuneration according to work and provides for an increasingly close correlation between the amounts of workers' incomes and the results obtained. This better meets the requirement of the economic law of distribution according to work, whereby the portion of the national income received should be directly proportional to the quantity and quality of the work performed, while everyone's remuneration and incomes reflect his contribution to implementation of the pro-

duction plan. Consequently no one can be remunerated, have a guaranteed income or share in the profits unless he produces according to his job obligations.

In the present stage it is essential to make greater use than before of the quantitative and qualitative parameters of the results of work in evaluating the work performed by workers and socioeconomic units and remunerating them for it, in addition to the established criteria of the level of training and productive potential of the labor force, the quantity, technical complexity and conditions of the work, and the length of service in the same unit. That is why the Program for Implementing the Decisions of the National Party Conference of December 1982 on Workers Remuneration and Distribution of Their Incomes emphasizes the necessity of giving more consideration to that criterion because of the equitable and incentive functions it can perform in remuneration for work.

As we know, the parameters of result of work correlate workers' incomes with the actual, effective and final contribution they have made through the results of their work.

Note that other criteria considered in remuneration for work, as for example the level of training of the labor force, seniority on the job, and quantity and complexity of the work, apply to potential or primary aspects of the socioeconomic activity, while the quantitative and qualitative indicators of result of work reflect the final effect of the work wherein the quantitative and qualitative parameters of the work performed are actually realized. The workers' and socioeconomic units' remuneration according to result of work combines the aspects of the labor force's training with performing the work and obtaining the result of work as an end product. It eliminates the discrepancies between those aspects and correlates the amounts of the workers' and units' incomes directly with fulfillment of the quantitative and qualitative indicators of the plan, which correlation was previously disregarded in a number of state economic units and agricultural cooperatives.

The actual result of work reflects the workers' and economic units' net contribution much more accurately than other criteria because it includes both the good points of the activity and, if they develop, the bad ones too that are harmful to the respective enterprise and ultimately to society. In this way the workers' and units' material compensation for the good results obtained is harmoniously combined with their material liability for nonfulfillment of their service tasks and for the damage they do to the national economy.

Remuneration according to the actual result of work allows for the workers' and socioeconomic units' own contribution. Therefore if remuneration is to be made by that criterion, it is necessary to determine by an objective-scientific method how much of the overall result is actually due to their own efforts and to set their incomes on that basis. For that purpose the state's contribution in the form of new investments and outlays for technical-material equipment, scientific research, personnel training, and organization and rationalization of operations, as well as the contributions of other units and the effects of some natural and biologic factors important in agriculture, the extractive industries, construction etc., must be deducted from the overall result of the workers' and socioeconomic units' activity. The result of work due to their own efforts must also be determined in order to measure the contribution of each enterprise in the sector and that of the socioeconomic units as well as that of the workers.



Determination of the workers' and economic units' contribution through their own efforts to the development of Romanian society and correlation of incomes with that contribution are important requirements for intensified workers self-management, economic-financial self-administration, and self-supply, since they eliminate situations where many enterprises' incomes depend not on their own activity but on the work of enterprises and workers in other sectors of the economy, just as they also eliminate situations where some teams or workers who labored conscientiously and obtained very good results were not receiving corresponding incomes because some of the good results of their work were diluted by being totaled with the failures of other teams and workers and with the bad effects of some production factors operating outside the teams or units.

In its broader aspects the end result of work includes in its direct and indirect qualitative and quantitative parameters the total contribution of the work with all its effects upon development of socioeconomic activity. The degree of satisfaction of the social need and of the productive and consumer needs of society and the public must receive primary consideration in the system of qualitative parameters of the result of work, and of course it must receive it more and more. If the products do not meet the social need in all respects (variety, technical level, quality, reliability etc.), we are faced with a partial waste of social labor, which means an actual loss of working time and material resources both to the respective enterprise and to society as a whole. The social usefulness of the actual work performed and the extent to which the level of training, and the professional structure and complexity of the labor force and the work, meet or fail to meet the social need are checked by means of the quantitative and qualitative parameters incorporated in the end product. As long as the labor force and the work performed, even if they are highly complex, fail to produce a socially useful result meeting the productive and consumer needs of the domestic and foreign beneficiaries and are not effectively expended, they do not contribute or do not contribute very effectively to the development and all-around progress of Romania's socialist economy.

Punctual delivery of products is another special qualitative indicator of the actual result of work which is to be considered in evaluation of and remuneration for work and which is highly important to all socioeconomic activity. Any violation of the dates for delivery of products and for performance of services causes disturbances in technical-material supply and chain reactions in a whole series of enterprises, disorganizes their activity and ultimately leads to shock work and working extra hours with all the resulting bad effects.

Remunerating workers according to the actual result of work based on their own efforts and contributions also serves an important purpose in proportioning the development of the units, the sectors and the national economy. By means of this criterion the public's remuneration, incomes and resulting purchasing power for consumption are directly and continuously correlated with the output actually produced according to the right quantitative and qualitative parameters, and the public can receive no increased or additional incomes without an actual commensurate gain in physical production, net production and commodity production sold and paid for. Complete correlation between the workers' and economic units' incomes and the actual result of their work based on their own efforts and contributions is essential to set the correct proportions between the accumulation fund and the consumption fund, between production, distribution, circulation and consumption, between supply of and demand for goods and services,

between the public's purchasing power and the amounts of goods and services for the public's consumption, among the sectors and subsectors of the national economy, and especially between industry and agriculture. The proportions for the monetary, financial and foreign-exchange balances of the national economy are also correlated and determined by complete correlation of the workers' and socialist units' incomes with the actual results of their work.

Improved correlation of workers' incomes with the results of their work began in 1981. The public's cash incomes from the socialist sector were up 6.3 percent from 1980 because of the correlated increase in prices for agricultural products and those of the extractive industry and the increase in peasants' incomes and those of the workers remunerated on the overall contract system in the coal and ore extractive industries. Correlation of production prices on economic principles and the increase in retail prices for agricultural food products etc. brought about a better correlation of workers' incomes with the actual results of their work based on their own efforts and contributions, and it also made for better correlated proportions among various fields, branches, processes and sectors, which determine the objective, dynamic and optimal balance of Romania's national economic development.

The favorable effect said program will have is apparent. Correlation of remunerations with growth of individual labor productivity and that of a whole enterprise is one of its basic for improving remuneration for work and distribution of incomes, so that remunerations will be increased in direct proportion to the degree of fulfillment of the indicators for growth of planned labor productivity in each enterprise, and that can favorably affect the whole process of expanded reproduction while helping to overcome the contradiction between production and consumption and to achieve a harmonious development of the sectors of the national economy. Application of the principles of the new program along with more intensive development of the productive forces and consumer goods production, as well as rationalized correlation of the consumption fund with the development fund in keeping with Romania's present and future requirements, will bring about a correct distribution of the consumption fund through close correlation of workers' and economic units' incomes with the actual results of their work.

Workers remuneration according to actual results of work based on their own efforts and contributions is vital to direct encouragement of occupational training and improvement and efficient use of workers' capacity for work. Better results cannot be produced by underqualified workers who are not interested in their occupational self-improvement and do not make full use of their working time and capacity. The deficiencies in this area have brought about a certain contradiction between the development of the productive forces and the technical base of society and the masses' levels of socialist awareness and of occupational, technical training.

Correlation of the quantitative and qualitative parameters of the actual result of work with the amounts of workers' incomes encourages workers to pay more attention to their occupational training and to take the task of their thorough technical, scientific and occupational preparation more seriously while they are still in school. Engels pointed out the kind of effect socialist distribution should have upon the human element when he described socialist distribution

to the effect that it is conducted accordingly to solely economic considerations it "will be regulated in the interests of production, and production is stimulated the most by a form of distribution enabling all members of society to develop, maintain and apply their aptitudes as fully as possible." (1)

Although the Romanian system of remuneration for work reflects the nature and characteristics of socialist distribution in general in its features, forms and elements, some of its elements that were based on humanitarian considerations have not proved effective in practice and have even resulted in a certain perfunctory attitude restricting efforts toward qualification of the labor force and qualitative improvement of socioeconomic activity. We refer to the 80 percent guarantee of remunerations and incomes, a regulation that is to be annulled by improved legislation and has proved to be an obstacle to development, improvement and full use of the workers' working capacity to improve socioeconomic activity and to obtain better results in growth of profitability and of economic effectiveness.

As regards the necessity of combining the workers' and economic units' material incentive with the achievement of socialist ethics and justice, remuneration for work according to the actual results obtained through their own efforts and contributions not only does not conflict with but, on the contrary, even accentuates and strengthens socialist justice in the distribution of the individual consumption fund. As it is pointed out in the program, every worker's remuneration and incomes will reflect the contribution made to implementation of the production plan if the socialist principle of remuneration in proportion to quantity and quality of work is consistently applied. No one can be remunerated or share in the profit unless he works, just as no one can have a guaranteed income unless he works and produces according to his job obligations. This combination and interdependence are based on the following considerations. In the first place, since socialist society does not remunerate workers "philanthropically" by "social aid" but out of their own output produced by their labor, it is just that those who give more through the results of their work based on their own efforts and contributions should receive more in the form of larger incomes, while those who give less should receive in proportion to what they produce or give to society. In the second place, if the amounts of incomes are not completely correlated with the results of work based on their own efforts and contributions, some are granted remunerations and incomes greater or less than their due according to the principle of distribution, namely that remuneration should be equal for equal work and results of work. In the third place, differentiation of incomes according to result of work combats egalitarianism in distribution. In the fourth place, differentiation of incomes according to result of work stimulates the general development of technical-occupational training and growth of labor productivity and of all workers' contributions to social development and progress and thereby gradually brings about a leveling of all incomes and reduction of the gaps between them, which are characteristics of socialist justice in remuneration for work. And finally, stimulative differentiation of incomes according to the actual results of the workers' and economic units' work intensively combines individual, collective and general interests and serves them simultaneously, fully and uniformly. In pointing out the justice of differentiating incomes according to the actual results of the workers' labor at the National RCP Conference in December 1982 Nicolae Ceausescu said, "The principles of social justice and equity... do not call for leveling of incomes.



In the spirit of those principles we must encourage production and interest in producing as much as possible, so that the workers and every citizen will accordingly receive the highest possible incomes."

The foregoing considerations indicate that remuneration according to the actual result of work based on the worker's own effort and contribution combines and harmoniously performs the incentive and equitable functions of socialist distribution while refining and accumulating the effects of its principles.

In view of the foregoing and the fact that result of work is an important criterion in evaluating work and in socialist remuneration for it, we feel it necessary to redefine the general principle of socialist distribution. In addition to the criteria of quantity, quality and social importance of work, it would be useful to include the actual result of work based on the worker's own effort and contribution as a major criterion for socialist remuneration for work.

Improvement of remuneration for work by closer correlation of workers' incomes with the actual results of their work based on their own efforts and contributions is based on the dynamic and perfectible character of economic relations of distribution as well as the other socialist economic and social relations in keeping with the levels of development of the productive forces and of relations of socialist ownership and with the aims and tasks of each stage in the process of socialist construction.

Therefore it is extremely important to stop granting guaranteed incomes amounting to 80 percent of remuneration. Experience has shown that this regulation tends to impair the effort on behalf of the real, effective end results of work and fulfillment of the quantitative and especially the qualitative plan indicators. It has given rise to tendencies toward stagnation and impairment of the inventive spirit and creative power as well as lags in the occupational and technical training of workers, engineers, craftsmen and other categories of workers, and it has contributed to incomplete and inefficient use of the labor force and production capacities in some sectors and to tolerance of breaches of order and discipline.

Providing only a part of the workers, especially TESA /Technical, Economic, Specialized and Administrative/ personnel, with incomes not correlated with the actual results of work and granting guaranteed incomes also caused injustices in remuneration, while payment of cash incomes without any volume of actually produced equivalent goods and services in material support of the remuneration fund made it possible for discrepancies to arise between the public's cash incomes and the volume of consumer goods and services designated for them.

The extremely low proportion of the variable part of workers' incomes in the form of bonuses awarded during the year, sums from profit sharing or annual bonuses prevents any further differentiation of incomes according to the result actually produced by each worker through his own effort and contribution.

For purposes of remunerating all categories of persons in direct proportion to the contribution made to implementation of plan tasks, improvement of product quality and growth of labor productivity, the program specifies ways to improve the system for organizing work and remuneration for it, including generalizing the overall contract system and increasing the variable portion of workers' incomes.



The overall contract system is to be the main form of remuneration for work, and it will include directly and indirectly productive personnel, craftsmen, engineers, technicians and the other categories of personnel, including the administrative personnel in enterprises, factories, plants, sections, shops, work-sites etc.

Generalization of remuneration on contract and especially by the overall contract system, which is the best form of remuneration according to the actual result of work, makes it necessary to set rates and incomes according to scientifically substantiated work norms, to integrate the specialists in the work units and sectors that are remunerated on the overall contract system, to correlate and apportion the units' remuneration funds according to the volume of production planned for the work units and sectors, to apply without restriction the proportions between the incomes received and the output produced above or below the norms for sectors, work units and workers, and to improve and simplify the methods of organization, recording and control.

It is particularly important to increase the proportion of the variable parts of the total incomes of working personnel that come out of the planned remuneration fund, especially by increasing the contractual additions, the bonuses out of the fund for sharing in the output produced, the profits and the division of profits, the bonuses for outstanding achievements, and the bonuses for conservation of manpower and materials and for stimulating export. Therefore the remuneration fund will cover base pay, amounting to 76 percent, as well as the variable portion amounting to 24 percent and including all bonuses, additions, increases and compensations. It is planned to increase the variable portion to 27 percent and more in 1985.

A more complete correlation of the amounts of incomes with the results of work based on the workers' own efforts and contributions also calls for improved methods of recording and controlling socioeconomic activity that will permit a direct connection between those two basic criteria of socialist remuneration for work, which are intended to correlate the parameters of result of work (contribution in labor) with the amount of income (extent of consumption) of the members of society. There is no question that the methods of recording have proliferated and elements of bureaucracy have appeared, but they must be simplified and rationalized with more discrimination so that the records to measure the result of work, incomes and consumption of the members of society will be calculated and checked systematically.

The increasingly simple, clear and efficient methods of keeping technical-operational, statistical and accounting records will separate the effect of the external factors from the effect of the worker's, team's, subunits' and units' own efforts through thorough knowledge of the productivity of the machines, installations, assemblies, raw materials, materials and other production means in use.

The bodies in the fields of statistics, planning, finance and accounting are expected to make a painstaking practical, theoretical and methodological effort in collaboration to determine and record the extent of the external effects in terms of value and volume on the levels of the economic units and sections so that realistic monthly, quarterly and annual reports can be compiled on the

indicators of results of work based on the workers' own efforts and contributions, doing away with the present cursory approximations. This is essential not only to improved remuneration for work but also to the new economic-financial mechanism and the self-management and self-administration of the socioeconomic and regional units. Recording and control of the quantitative and qualitative results of the workers' individual work are also highly important.

Improvement of remuneration for work according to the results of the workers' own efforts requires constant improvement of the work norms by allowance for the changes occurring in the system of all specific working conditions (including improvement of the labor force) and for the demand for greater labor productivity in all sectors. The work norms must be improved for all categories of workers and general, equal and equitable norms must be objectively and scientifically set both for workers and cooperative members and for the other categories of personnel. In this connection it is necessary to update and equitably correlate the norms for workers and cooperative members and to improve the norms for all TESA personnel by further reducing them and expanding the performance of some mixed technical-administrative and directly productive activities by these categories of personnel.

Since the correlation of amounts of incomes with results of work based on the workers' own efforts must also be coordinated with the requirement for workers' incomes in amounts needed to raise their living standard, it is urgent to radically improve organization of production and labor through scientific rationalization of production flows, regular production and strengthened order and discipline at work in all sectors of activity, to raise the level of training and improve all workers, and to enhance the workers' political, professional, patriotic and communist awareness.

Improved by correlation of workers' incomes with the actual results of their work based on their own efforts and contributions, socialist remuneration for work fully performs its incentive and equitable functions by influencing the development and improvement of all socioeconomic activity more effectively.

#### FOOTNOTE

1. F. Engels, "Anti-Duehring," State Publishing House for Political Literature, 1955, Third Edition, p 222.

5186

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## MEASURES TO INCREASE DOMESTIC MINERAL PRODUCTION VIEWED

## Nonferrous Mineral Use

Bucharest REVISTA ECONOMICA in Romanian No 20, 20 May 83 pp 10, 13

[Article by Victoria Raducanu: "Large Scale Use of Nonferrous Minerals with Low Content of Useful Substances"]

[Text] Supplying the national economy with the necessary quantities of metals, particularly nonferrous metals, is becoming one of our major mining activities, especially now as the aeronautical, electrical engineering and electronic sectors are continuing to develop. Given this, introducing all nonferrous mineral deposits into the economic circuit requires a very detailed knowledge of the ways to exploit these deposits and of the technological processes unique to metal extraction from mined raw ores.

Romania has a variety of nonferrous mineral deposits, but they are poor in content and are found relatively deep in the earth, causing technical mining and processing problems. The worldwide trend of a naturally progressive decrease in the percentage of useful substances in mined minerals is clearly manifested in our own domestic nonferrous mineral mining. For this reason and because of the increased industrial consumption of ferrous metals, the percentage of industrial consumption met by internal production has decreased in the past decade.

In 1980, only 60 percent of the copper, 77 percent of the lead and 72 percent of the zinc consumption were covered by domestic production. (See Table 1). The only nonferrous metal which met the national economy's needs was aluminum (in the form of aluminum alloys and products) for which we import about 70 percent of the bauxite required.

Table 1. Percentage of nonferrous metal consumption met by domestic production:

	<u>1970</u>	<u>1975</u>	<u>1980</u>
Copper	122.8	45.6	60.1
Lead	116.2	74.6	77.2
Zinc	122.7	75.8	72.4

Bringing nonferrous mineral deposits with low amounts of useful substances into the economic circuit involves increasing the amount of raw ores mined to obtain the same amount of metal. This results in the allocation of supplementary funds both for opening new operations or maintaining existing ones as well as for producing or obtaining new metal processing extracting technologies to allow a more efficient exploitation from an economic point of view. If a certain quantity of raw ore has reduced amounts of useful substances, one is able to obtain only a reduced quantity of metal. If in 1970, for example, to obtain 1 ton of metal—copper, lead, zinc, etc.,—about 52 tons of mined complex ores were required; in 1982, about 59 tons were needed. Similarly, in 1970 about 128 tons of raw cupriferous ore was required for 1 ton of copper; in 1982 approximately 297 tons were necessary.

Along with the increased mining expenses, problems have arisen in preparing the nonferrous concentrates with the qualities required for later technological processes. Table 2 illustrates the increase required in material efforts, especially energy, to produce nonferrous metal, as the proportion of useful substances in the raw ore is reduced.

Table 2. Evolution of energy consumption necessary to obtain 1 ton of electrolytic copper

<u>Type of Consumption</u>	<u>Unit of Measure</u>	<u>1970</u>	<u>1975</u>	<u>1980</u>
1. Electric energy consumption necessary to obtain 1 ton of electrolytic copper from:				
--cupriferous minerals	kilowatt hr/ton	100.0	149.5	157.7
--complex minerals	kilowatt hr/ton	100.0	121.5	135.1
2. Energy consumption necessary to obtain 1 ton of electrolytic copper from:				
--cupriferous minerals	ton of conventional fuel per ton	100.0	149.5	157.7
--complex minerals	ton of conventional fuel per ton	100.0	103.1	114.6

Along with the increased quantity of minerals needed to produce a ton of metal, there are also increased production costs, on the average 13 percent, due in part to more difficult mining conditions and in part to the much greater complexity of the technical procedures for primary preparation of these minerals.

To increase the proportion of consumption satisfied by domestic production, it is necessary, along with mining poorer quality nonferrous minerals, to pay greater attention to obtaining these metals from slags and slurries which are often richer than the known mineral deposits. Recovering nonferrous metals



from industrial wastes and from fixed means discarded by the general population increases the percentage of consumption met by domestic production. The majority of nonferrous metals are used in a wide variety of products and recovering them depends upon improving present technologies to be able to cost effectively separate the useful materials from the heterogeneous mix of metals. As a matter of fact, our country lags far behind others in recovering nonferrous metals. For example, in 1981 recovered aluminum accounted for 11.8 percent of total consumption, electrolytic copper, 21 percent and zinc, 6.7 percent.

The nonferrous minerals extractive industry is currently undergoing more sustained growth both by maintaining present production capacities and by bringing on line new ones which allow us to mine industrial deposits of poorer quality in conditions of technical-economic efficiency. This is particularly true for substances recently introduced into the economic circuit. These operations require mineral resources and, especially, energy consumption, but bringing them on line has as its final goal increasing the possibilities of recovering copper and other useful materials from these deposits. In this way, the percentage of meeting industrial consumption with nonferrous metals will rise so that by the end of the current 5-year plan, all such consumption will be met by domestic production. Consideration of energy consumption involved in the installations and technical consumption (energy and material) must be the basic parameters in adopting new technologies for processing nonferrous minerals. The calculation of these installations' technological and economic efficiency must include the energy factor.

In the future, the change in the content of useful substances in the raw mined ores and minerals will continue to be the decisive factor in establishing material and energy efforts necessary for the entire mining operation. If in regard to raw ore mining, the increase in efforts is based on mining conditions, then in preparing and selecting useful substances, the development of material and energy efforts is strongly influenced by the content of the mined minerals. We believe that the evaluation of the efforts involved in mining nonferrous metal minerals should be based on a hard currency evaluation, at world prices, of the raw materials, supplementary materials, fuels and energy consumed in the mining itself, in processing the mined minerals and in related investments compared with their hard currency value should they be sold on the international market. The upper limit allowable for materials and energy consumption in domestic mining and processing of nonferrous minerals should be set on the basis of the value which could be obtained by selling these directly on the foreign market.

The balance of all efforts necessary in mining and processing nonferrous metals would have to be achieved by continually monitoring the way nonferrous metals are being used in the material production branches where they are consumed. These branches must make their contribution toward compensating for the hard currency needed to buy the superior quality mineral concentrates that allow them to obtain high purity nonferrous metals. Reduction of nonferrous metal specific consumption, reorientation toward those highly processed products requiring reduced quantities of metal and the reintroduction of all of these metals into the economic circuit will constitute particularly important stimulants and methods to obtain their maximum utilization.

## Nonmetalliferous Mineral Development

Bucharest REVISTA ECONOMICA In Romanian No 20, 20 May 83 p 11

[Article by Rodica Enache: "Coordinates for Increasing the Production of Nonmetalliferous Minerals"]

[Text] The sector for extracting nonmetallic substances and useful rocks has undergone significant development in recent decades because of the extended use of these raw materials in a great majority of the material production areas. Indeed the metallurgic, chemical, machine building and construction materials industries, etc., use a wide variety of nonmetallic substances and useful rocks: sulfur, bentonite, dolomite, barite, feldspar, mica, kaolin, quartz, talc, asbestos, graphite, refractory clay, limestone, salt and diatomite. Other substances such as argonites, ornamental marble and limestone, travertine, diabase, andesite, dacite, porphyry, etc., are most often used as construction materials for decorations and ornaments.

The wide-scale use of nonmetallic substances requires increased activity to develop, rationally mine, and make use of these valuable minerals, although the nonmetallic sector will undergo a less dynamic evolution than in the past primarily due to large amounts of energy involved in mining and processing. Attention will be concentrated on increasing the level of product processing and of obtaining medium and high purity levels from substances which used to yield run-of-the-mill products. In this way, the quality and quantity of the labor involved in the majority of nonmetallic products will exceed that realized in the past, will increase the products' worth, enhance their competitiveness and, in general, contribute to increasing labor productivity and to substantial reduction of nonmetallic raw material imports.

The directives and tasks for the current five-year plan which were laid down by the Party National Conference, call for the development of the production of nonmetallic substances in accordance with the national economy's needs. Thus, sulfur production will increase 6.1 times, kaolin and dolomite, 1.4 times and so on. At the same time, new resources such as titanium-zirconium alluvial deposits, rare earths, potassium salts and thermal waters will be introduced into the economic circuit.

The decisive factor in increasing production of nonmetallic substances and for these substances to more actively participate in raising the national income through the extractive industry, is the intensification of geological activities to identify and exploit new reserves. Toward this end, geological research has the priority tasks of increasing the rate of developing exploitable reserves and our knowledge of them and establishing technological and economic solutions for utilizing these substances.

Particular emphasis will be placed on intensifying geological and technological research on nonmetallic substances and useful rocks which are slated for important development but of which we have a quantitative and qualitative shortage. The goal for the future is to be able to meet all our needs from domestic production. In this category are kaolin (kaolinitic

rocks and sands) refractory clays, silicon sands, barite and limestone with brucite. At the same time, our specialists' attentions are turned to increasing the recovery factor for substances in particular demand in our economy such as sulfur, refractory clay and kaolin. Toward this end, we need to improve the current methods for recovering the above mentioned nonmetallic substances and improving their quality.

An analysis of the overall situation in the useful rock and nonmetallic substances sector shows certain important aspects for directing and developing this extractive industry in the future:

The potential of nonmetallic substances offers great possibilities for widening the useful mineral resources base. There are still substances whose exploitation is a matter for the future (potassium salts, kyanite and phosphate salts) or which is still below potential (sulfur). Mining and exploiting them completely and in complex ways involves intensified geological research, a shortened research-plan-production cycle and especially, modern technological processing on the level of world standards. To move rapidly to solve the problem it is necessary that specialists in both research and mining intensify studies to determine the most efficient solutions and to identify the specific tools they most need.

Mention must be made of the quality of products in light of ever-increasing consumer demands. Special attention must be paid to products important for the national economy such as sulfur, refractory clay and kaolin whose deposits are not up to the qualitative demands required for high, efficient profitability. For these substances we have to undertake and complete geological and technological research on a case-by-case basis and we must clarify and resolve certain problems related to the effective utilization of the respective deposits, such as, for example, energy consumption.

Developing and introducing modern, efficient technology in processing useful nonmetals and rocks is made all the more necessary by the need to reduce and even replace imports. This is true for products with a low volume of reserves (sulfur and barite) or for others whose reserves are of inferior quality (graphite, refractory clay and kaolin). Furthermore, the hard currency involved in obtaining these imports could be compensated for by exporting, under favorable foreign market conditions, substances for which we have important reserves and current low demand such as rock salt, marble and so on. And here too, it is going to require more involvement than heretofore of specialists in this area of research and of others who have interests in this sector.

We should also consider achieving an adequate organizational framework to resolve these problems. If the geology sector can present a clear, unified image of the situation with nonmetallic substances, the same is not true in the extractive sector where dispersal among various ministries creates problems in coordination and in development of a viable economic strategy.

12280

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## INCREASING ENCAPSULATION OF FIRMS SUBJECT OF STUDY

Belgrade NEDELJNE INFORMATIVNE NOVINE in Serbo-Croatian No 1692, 5 Jun 83  
pp 10-11

[Article by Scepan Rabrenovic: "Larger Divisions"]

[Text] "Self-managing economy ought to be a highly integrated economy."

These words were uttered last Thursday by Dr Zoran Pjanic, professor, in opening a discussion on the topic: "Integrative and Disintegrative Processes in the Yugoslav Economy." The discussion was held in the lecture series of the Marxist Center of the Serbian LC Central Committee.

It is truly a pity that this discussion—for which Caslav Otsic of the Belgrade Economics Research Institute made a very worthwhile survey—was not attended by all those invited. Dr Zoran Pjanic, professor, explained thier absence this way: "There are quite a few meetings similar to this one today, so that the scholars have dispersed among them. This demonstrates the demand there is now for scientists."

The data from Caslav Otsic's extensive survey elucidate most convincingly the reasons for the great demand for scientists. Many things have happened in our economy in recent years, and now there is a need for scientific explanations of those numerous phenomena. One of them is the disintegration of the economy and indeed of society. Here is the evidence: in 6 years (over the period from 1976 to 1981) the number of organizations in business activities increased by 30.15 percent. Most of these are not new organizations, but rather the increase in their numbers occurred mainly as firms broke up. But that is not all. That is, we know that most organizations were formed before 1976, so that if we were to take some earlier year for comparison, it would show that the process of fragmentation has been still greater.

## A Republicanized Market

The data from Caslav Otsic's survey show that in this period there was a marked encapsulation of the economy within the limits of republics and provinces. Of the total number of basic organizations of associated labor in Bosnia-Herzegovina only 1.6 percent were in 1981 associated as components of work organizations of other republics and provinces, while 0.9 percent of the basic



organizations of associated labor from other republics and provinces were associated as components of work organizations of this republic.

Nor does this make Bosnia-Herzegovina an exception. The situation is almost the same in the other republics and provinces. In 1976, once again, the linkage of work organizations was greater. Two years ago there were only 422 basic organizations of associated labor in the entire country located outside the "parent" republic or province.

The physical disintegration of the economy has been accompanied by parcelization of the market, that is, by a reduction of the sales of goods and services over republic and provincial borders. For example, 59.6 percent of the total sales of goods and services in 1970 were confined to individual republics and provinces, 27.7 percent crossed republic and provincial lines, and 12.7 percent were undistributed (exports, reserves, the YPA [Yugoslav People's Army]). In 1980 69 percent of total sales of goods and services in Yugoslavia were confined to individual republics and provinces, and 21.7 percent occurred across borders, and 9.3 percent were undistributed.

The pattern is as follows by republics and provinces: in Bosnia-Herzegovina the share of sales of "its own" goods and services on "its own" territory was 71.1 percent in 1980, in Montenegro it was 71.9 percent, in Croatia 72.3 percent, in Macedonia 62.3 percent, in Slovenia 63.5 percent, in Serbia proper 69.2 percent, in Vojvodina 65.3 percent and in Kosovo 62.9 percent.

In the period from 1970 to 1980 purchases in Bosnia-Herzegovina from other republics and provinces fell from 36.7 percent of total purchases to 25.5 percent, in Montenegro the drop was from 51.8 to 39.9 percent, in Croatia from 27.4 to 18.5 percent, in Macedonia from 36.2 to 29.1 percent, in Slovenia from 27.4 to 20.2 percent, in Serbia proper from 32.6 to 20.4 percent, in Vojvodina from 30.8 to 26.3 percent and in Kosovo from 53.7 to 44.4 percent.

Total deliveries outside the respective republic or province show similar tendencies. Thus in the period from 1970 to 1980 Bosnia-Herzegovina's deliveries to others fell from 36.8 percent of total deliveries to 28.9 percent, Montenegro's dropped from 51.3 to 28.1 percent, Croatia's from 37.2 to 27.7 percent, Slovenia's from 42.4 to 36.5 percent, those of Serbia proper from 40.4 to 30.8 percent, Vojvodina's from 50 to 34.7 percent and Kosovo's from 34.4 to 37.1 percent [sic]. In that period only Macedonia increased its deliveries to others, and that from 35.5 to 37.4 percent.

### Three Reasons Related to Foreign Exchange

These are only some of the many data from this survey showing the extent of the disintegration that has occurred in the Yugoslav economy.

Yet Otsic did not confine himself solely to the figures, but, citing the judgments of many scientists, he searched for the reasons of such extensive economic and social divisiveness.

Foreign economic relations take first place. In the opinion of Dr Oskar Kovac, referred to in this survey, there have been three major failures in development of the foreign exchange system which have frustrated the functioning of the unified Yugoslav market and a more extensive, cohesive and purposive development policy.

First: the substitution of means for ends in this area, that is, the placement of foreign exchange at the center of foreign economic relations instead of those goals which in any economy are set for foreign economic relations.

Second: an erroneous and nonsensical analogy, which was invented, between income and foreign exchange.

Third: introduction of the payments-balance positions of the republics and provinces. They destroyed the unified Yugoslav market and division of labor which had been built up previously. It is not a case, then, as is said today, that the payments-balance and exchange-balance positions of the republics and provinces were something constructed from what is said to be a good idea or in any case a well-meaning idea. Everything that has happened in this connection was an inevitable consequence of the concept itself.

A fiscal policy shaped and instituted at various levels was also referred to as one of the reasons contributing to unequal conditions for conduct of economic activity on the Yugoslav market. Thus the basic turnover tax is in the jurisdiction of the Federation, and a special turnover tax in the jurisdiction of the republics and provinces, and the policy governing contributions from corporate income and taxes and contributions from personal incomes are regulated by the republics, the provinces, the opstinas and self-managing communities of interest.

Caslav Otsic "blames" the system of price policy, since it "essentially works toward a high rise of prices, a further narrowing of relations in primary distribution, restriction and reorientation of flows of goods, and all this brings about negative tendencies in development and in the functioning of the unified Yugoslav market."

Experience to date has shown, that is, that there was a considerable deviation in price policy concerning products marketed to a major extent outside "one's own" republic or province. To go further: while the prices of certain products were formed according to the conditions of the market, prices of other products were under partial or complete control, which frustrates certain segments of the economy and indeed even certain regions, [giving them] a differing position in the earning of income.

Credit and monetary policy also "deserves credit" for disrupting relations on the unified Yugoslav market, "since money follows regional movements to the greatest extent." And those "regional movements" have a well-known destination: every bank "serves" only "its own" economy. There are no precise figures, but it can be confidently asserted that the investment of one bank on "someone else's" territory can be measured in promilles. Not counting, of course, the mandatory pooling imposed by law.

### Only One of the Problems

One of the opinions cited in this survey was that of Vladan Markovic to the effect that "the degradation of the commodity economy and market has led to a weakening of the unified Yugoslav market and to the occurrence of a number of phenomena typifying a common market."

There is also the opinion of Dr Zoran Pjanic, professor: "The attempt to impose the idea of a common market was passed over as though it were a misunderstanding or an episode. It is likely that some mistaken language did slip through in the statements of certain individuals, but certainly this was no random or negligible episode. The common market formed in western Europe has very decided characteristics and represents the first attempts at federalization of altogether independent states. This is a step forward in the creation of a large space in which all the advantages of present-day technology and production could be utilized.

"The peculiarities of our social order are attracting the attention of the world public; to some extent they have thrust us to the very crest of world developments, but this uninterrupted weakening of the links between the republic economies is indubitably a striking curiosity, but not one we can be proud of. Introduction of a common market would undoubtedly be a step backward in every aspect of the common life of our peoples."

The consequences of the increasingly enclosed and rounded-off regional economic structures referred to in that survey were as follows: widening of structural disproportions, inadequate use of comparative advantages, of economies of scale and of technical progress, a weakening of the competitiveness of the Yugoslav economy on the world market, an ever slower rate of Yugoslavia's overall economic development, intensification of the problem of unemployment, ever greater regional differentiation with respect to levels of development, disintegration of Yugoslav economic space (as well as ideological and cultural space), a weakening of working class cohesion, a strengthening of the potential for conflict, and so on.

7045

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INCREASING AGRICULTURAL LAND IN      SOCIALIZED SECTOR, 1961-1980

Belgrade EKONOMIKA POLJOPRIVREDE in Serbo-Croatian No 3-4, Mar-Apr 83  
pp 229-236

[Article by Ugljesa Pavlovic, M.A., SR [Socialist Republic] Serbia Republic  
Bureau of Statistics, Belgrade]

[Text] Contents: The increase in the landholdings of the socialized sector of agriculture is very important to intensification of agricultural production and to production of farm products for the market.

Until the measures of the 1965 economic reform were enacted, this expansion was quite marked, but after that a quite appreciable decline of all forms of expansion was noted.

The real possibilities exist for a further expansion of the landholdings of the socialized sector of agriculture in our country, since sizable areas of households consisting of elderly people and nonfarmers are not being cultivated sufficiently. In recent years there have been about 650,000 hectares of fallow land and uncultivated plowland, which is about 9 percent of the plowland; there is no justification for this from the social standpoint.

Introduction

Expansion of the landholdings of the socialized sector of agriculture, i.e., of agricultural organizations, is very important to intensification of agricultural production and to market production of farm products. This expansion depends on the country's socioeconomic development and on economic and social changes in rural areas which affect the rate at which land passes from private to public ownership. As a function of that development and changes in rural areas, the farm population is more and more taking employment off the farm, so that a portion of that population is leaving farming and rural areas once and for all, while another portion is remaining in rural areas and making its living from farming. Research of the SR Serbia Republic Bureau of Statistics in 1979 shows that about 20 percent of all farm households do have young people on the farm; in settlements located near the opstina seat, that percentage is



still lower (13 percent), and in settlements located in the vicinity of major cities and industrial centers it is only 8 percent. Consequently, most rural young people are going to school and taking employment off the farm, and an ever increasing number of peasant households are being left without manpower, whereby the conditions are being created for expansion of the landholdings of the socialized sector of agriculture either through the leasing or purchasing of the land from the private farms. In addition the agricultural organizations (combines, state farms and cooperatives) are also increasing their landholdings in other ways such as bringing new area into cultivation through reclamation, by appropriating common grazing lands and pastures, through the restoration of usurped land, by taking over abandoned land, etc.

The purpose of this article, however, is not to examine in detail all the ways in which the landholdings of the socialized sector of agriculture are expanded, but it is restricted solely to the principal forms which have been evident since adoption and implementation of the 1953 Law on Agricultural Landholdings. In this article, then, we present the trends in expansion of the landholdings of the socialist sector of agriculture in our country from 1961 to 1980 which have been manifested through the principal forms of that expansion.

#### The Principal Forms of Expansion of Landholdings

Aside from the stock of land created by the 1945 agrarian reform (about 840,000 hectares) and aside from the 1953 Law on Farm Landholdings (about 276,000 hectares were purchased), the principal forms of expansion of the landholdings of the socialized agricultural organizations are the leasing and purchasing of land, new land development and the restoration of usurped land.

Although the leasing of land does not signify a change in the land's ownership, it is still one of the ways which speeds up the process of socialization of agricultural production and a strengthening of socialist social relations in rural areas. The leasing of land had a share of about 56 percent in total expansion of the landholdings of the socialized sector over the period for 1961 to 1980.

The purchase of land from private farms is the principal way in which publicly owned landholdings are increased; over that same period its share has been 28 percent of the total expansion of the land stock.

Newly developed land obtained through reclamation and the restoration of usurped land had the smallest share (16 percent). New areas were mainly obtained by clearing forestland and brush, by turning pastures into arable land, and by reclaiming productive land along rivers and canals. Some of this land is subject to erosion and floods and from the standpoint of expansion of the landholdings of the socialized sector of agriculture does not have the importance of land purchases, since it is mostly plowland that is purchased (about 85 percent).

The restoration of usurped land is a special form of expansion of the landholdings of the socialized sector of agriculture. That is, usurpation of public land by private producers occurred particularly after the peasant-worker

cooperatives were disbanded, when public land was seized along with private land. But even today there are certainly cases of plowing under of boundaries and appropriation of public land, which is detected very easily in areas where land consolidation proceedings are conducted. However, less and less public land is being seized, so that the restoration of usurped land is dropping off, so that it has a relatively small share in the total expansion of the land stock (about 7 percent), and in recent years has been only 3 percent.

In both absolute and relative terms the largest restoration of usurped land occurred in the years before the reform.

Table 1. Principal Forms of Expansion of the Landholdings of the Socialized Sector of Agriculture in Yugoslavia

<u>Period (average)</u>	<u>Leased Land</u>	<u>Land Purchases</u>	<u>New Land Development</u>	<u>Restoration of Usurped Land</u>	<u>Total</u>
Area, in hectares					
1961-1965	104,500	67,454	15,247	15,471	202,672
1966-1970	41,298	20,260	7,308	7,540	76,400
1971-1975	33,772	10,124	4,643	2,931	51,470
1976-1980	36,011	11,987	6,277	1,605	55,880
Breakdown, in percentage					
1961-1965	51.6	33.3	7.5	7.6	100
1966-1970	54.1	26.5	9.6	9.0	100
1971-1975	65.6	19.7	9.0	5.7	100
1976-1980	64.4	21.5	11.2	2.9	100

According to the figures in Table 1, all forms of expansion of the landholdings of the socialized sector show a declining trend except in the period 1976-1980, when there was a slight increase in leasing, purchases, and new land development. However, if we take the entire period, it turns out that in both absolute and relative terms leasing has the highest proportion of total expansion of landholdings, followed by purchases and new land development, and restoration of usurped land has the smallest share.

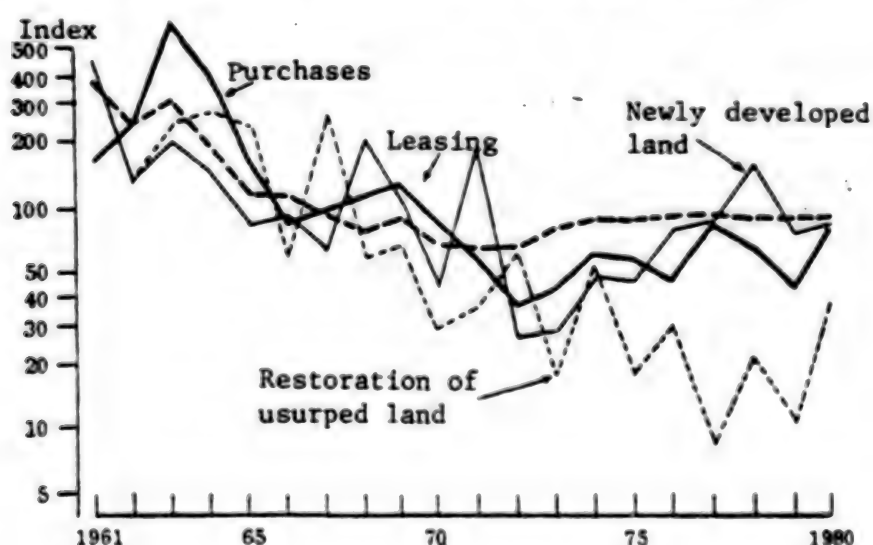
According to the figures in Table 2, all forms of expansion of the landholdings of the socialized sector of agriculture show a declining trend relative to the total plowland, and that from 19.5 percent in the period 1961-1965 to 4.3 percent in the period 1976-1980.

If we omit the leasing of land, which does not represent public ownership, from total expansion of the landholdings of the socialized sector of agriculture, then land purchases averaged 64 percent over the period 1961-1980; this share was highest in Vojvodina and lowest in Montenegro.

Table 2. Share of the Principal Forms of Expansion of the Landholdings of the Socialized Sector in the Total Landholdings [sic] of the Socialized Sector of Agriculture in Yugoslavia, in percentage

Period (average)	Leased Land	Land Purchases	New Land Development	Restoration of Usurped Land	Total
1961-1975	10.0	6.5	1.5	1.5	19.5
1966-1970	3.4	1.7	0.6	0.6	6.4
1971-1975	2.7	0.8	0.4	0.2	4.1
1976-1980	2.8	0.9	0.5	0.1	4.3

Expansion of the Holdings of Socialized Agricultural Organizations in Yugoslavia (1966-1970 average = 100)



#### Leasing of Land

Under our conditions leasing is the dominant way in which larger landholdings of agricultural organizations are created.

Over the period under review the largest leasing of land was in 1961, when it amounted to about 153,000 hectares. Since that time the leasing of land has been dropping off, and in 1980 amounted to about 55,000 hectares. The leasing and purchasing of land stand in a certain correlation to one another which has been manifested over almost the entire period, but there has been a decline of the absolute values for both forms, but the decline for the leasing of land has been larger in relative terms.

According to the figures in Table 3, the largest amount of land has been leased in areas where cropping is most highly developed in the socialized sector of agriculture, and those areas are SAP [Socialist Autonomous Province] Vojvodina and Slavonia. Over the last 10 years or so, then, SAP Vojvodina and SR Croatia have together accounted for more than nine-tenths of the total land

leased in Yugoslavia, about 90 percent of which was plowland (plowland represents 37 percent in SR Slovenia, 49 percent in SR Macedonia, and 71 percent in SR Montenegro). Also, up until 1971 agricultural cooperatives, including the peasant-worker cooperatives, were engaged in leasing land to a greater extent; this accounted for almost two-thirds of all the land leased, but since that time the leasing of land by those organizations has been falling off, and in recent years amounted to 10-20 percent, while the leasing of land by agricultural organizations of associated labor (combines, state farms, etc.) has shown an increase in its relative share, and that from one-third to four-fifths.

Table 3. Leasing of Land by Agricultural Organizations, annual average

<u>Republic, Province</u>	<u>1961-1965</u>	<u>1966-1970</u>	<u>1971-1975</u>	<u>1976-1980</u>
Area, in hectares				
Total	104,500	41,298	33,772	36,011
Bosnia-Hercegovina	1,185	281	79	119
Montenegro	163	83	45	20
Croatia	9,841	5,101	7,279	10,623
Macedonia	8,214	1,562	1,144	868
Slovenia	6,481	2,824	2,034	1,651
Serbia, total	78,716	31,447	23,191	22,730
Serbia proper	5,797	2,915	1,038	943
Vojvodina	66,406	26,313	21,800	21,163
Kosovo	6,512	2,219	353	624
Breakdown, in percentage				
Total	100	100	100	100
Bosnia-Hercegovina	1.1	0.7	0.2	0.3
Montenegro	0.2	0.2	0.1	0.1
Croatia	9.4	12.4	21.6	29.5
Macedonia	7.9	3.8	3.4	2.4
Slovenia	6.2	6.8	6.0	4.6
Serbia, total	75.2	76.1	68.7	63.1
Serbia proper	5.5	7.1	3.1	2.6
Vojvodina	63.5	63.7	64.6	58.8
Kosovo	6.2	5.3	1.0	1.7

#### Land Purchases

The purchasing of land has particular importance, since the land passes into public ownership. Socialized agricultural organizations are more interested in long-term investments on land that they have purchased than on land which is leased. That is why the purchasing of land is both an element of farm policy for expansion of the landholdings of the socialized sector of agriculture and also a factor for increasing total production of farm products and production for the market.



Since 1953, when the Law on Farm Landholdings was adopted, and when about 276,000 hectares were purchased, the largest purchasing of land up to 1980 was in 1963, when about 136,000 hectares were purchased from private farms. Since that time the purchasing of land has been dropping off, and in 1980 it was 13,446 hectares. Over the period under review (1961-1980) a total of 549,000 hectares were purchased in Yugoslavia, the largest amount in SAP Vojvodina (231,000 hectares, or about 42 percent) and SR Croatia (about 145,000 hectares, or more than 26 percent). It follows that over the period under review SAP Vojvodina and SR Croatia accounted for more than two-thirds of all the land purchased in Yugoslavia.

Table 4. Purchases of Land by Agricultural Organizations, annual average

<u>Republic, Province</u>	<u>1961-1965</u>	<u>1966-1970</u>	<u>1971-1975</u>	<u>1976-1980</u>
Area, in hectares				
Total	67,454	20,260	10,124	11,985
Bosnia-Hercegovina	5,803	780	40	210
Montenegro	280	60	16	--
Croatia	16,214	6,036	1,837	4,951
Macedonia	8,598	1,567	804	587
Slovenia	5,092	323	229	729
Serbia, total	31,467	11,494	7,198	5,508
Serbia proper	3,609	1,342	429	1,454
Vojvodina	25,645	9,928	6,675	3,995
Kosovo	2,213	224	94	59
Breakdown, in percentage				
Total	100	100	100	100
Bosnia-Hercegovina	8.6	3.8	0.4	1.8
Montenegro	0.4	0.3	0.2	--
Croatia	24.0	30.0	18.1	41.3
Macedonia	12.8	7.6	7.9	4.9
Slovenia	7.5	1.6	2.3	6.1
Serbia, total	46.7	56.7	71.1	45.9
Serbia proper	5.4	6.6	4.2	12.1
Vojvodina	38.0	49.0	65.9	33.3
Kosovo	3.3	1.1	1.0	0.5

As in the leasing of land, mostly plowland has been purchased, about 85 percent of all the land bought.

Up until the 1965 economic reform the largest amounts of land were purchased by agricultural and peasant-worker cooperatives--about 50 percent of all the land purchased. After that the relative share of these cooperatives declined in total land purchases, especially immediately before adoption of the 1976 Law on Associated Labor, when there was more intensive integration in the agro-industrial complex and when certain agricultural cooperatives were reregistered as basic organizations of associated labor.

## New Land Development

New land development actually does not contribute to expansion of the landholdings of the socialized sector, since this land was already publicly owned. It is only a question of changing the land-use category (brush and other unfertile land has been turned into arable land).

From the standpoint of the total expansion of the landholdings of agricultural organizations this form has a relatively small share (about 9 percent). However, it is also significant under present conditions when we are making efforts to increase food production in the country.

Table 5. New Land Development by Agricultural Organizations, annual average

<u>Republic, Province</u>	<u>1961-1965</u>	<u>1966-1970</u>	<u>1971-1975</u>	<u>1976-1980</u>
Area, in hectares				
Total	15,247	7,308	4,643	6,277
Bosnia-Hercegovina	1,106	832	286	635
Montenegro	318	24	--	166
Croatia	3,367	2,331	427	2,232
Macedonia	4,275	2,187	2,618	276
Slovenia	926	82	350	589
Serbia, total	5,255	1,852	962	2,379
Serbia proper	1,100	322	303	1,206
Vojvodina	2,452	1,193	576	1,089
Kosovo	1,703	337	83	84
Breakdown, in percentage				
Total	100	100	100	100
Bosnia-Hercegovina	7.3	11.4	6.2	10.1
Montenegro	2.1	0.3	--	2.6
Croatia	22.1	31.9	9.2	35.6
Macedonia	28.0	30.0	56.4	4.4
Slovenia	6.1	1.1	7.5	9.4
Serbia, total	34.4	25.3	20.7	37.9
Serbia proper	7.2	4.4	6.5	19.2
Vojvodina	16.1	16.3	12.4	17.4
Kosovo	11.1	4.6	1.8	1.3

In the period from 1961 to 1980 reclamation furnished 167,000 hectares of arable land to the socialized sector. Over that period the largest amount was developed in 1961 (about 32,000 hectares), and the least in 1972 (only 2,000 hectares). Consequently, as in the case of other forms of expansion of the socialized sector's landholdings, so in the development of new area there was a declining tendency up until 1976, and at the same time there were quite marked fluctuations from year to year and region to region.

SR Macedonia and SR Croatia have had the largest relative share in the development of new land in our country. Those two republics account for about 50 percent of the total land reclaimed over that period. Third place is taken by SAP Vojvodina, with a share of about 16 percent. Consequently, SR Macedonia, SR Croatia and SAP Vojvodina account for about two-thirds of all the newly developed land in our country.

#### Restoration of Usurped Land

The restoration of usurped land, just like the newly developed land, does not constitute an expansion of the landholdings of the socialized sector of agriculture, since this land was already publicly owned. Thus from the standpoint of the total expansion of the landholdings of agricultural organizations, restoration of usurped land has the smallest share (about 7 percent).

In the period from 1961 to 1980 about 123,000 hectares of usurped land were restored to agricultural organizations. The largest amount was restored in 1967 (about 20,000 hectares), and the smallest amount in 1977 (only 614 hectares).

Table 6. Restoration of Usurped Land to Agricultural Organizations, annual average

<u>Republic, Province</u>	<u>1961-1965</u>	<u>1966-1970</u>	<u>1971-1975</u>	<u>1976-1980</u>
Area, in hectares				
Total	15,471	7,540	2,931	1,605
Bosnia-Hercegovina	399	263	8	57
Montenegro	24	70	12	68
Croatia	2,832	2,774	317	664
Macedonia	4,351	1,695	400	159
Slovenia	689	202	339	141
Serbia, total	7,186	2,536	1,855	516
Serbia proper	4,399	731	646	89
Vojvodina	1,794	1,394	1,197	237
Kosovo	993	411	12	190
Breakdown, in percentage				
Total	100	100	100	100
Bosnia-Hercegovina	2.6	3.5	0.3	3.6
Montenegro	0.2	0.9	0.4	4.2
Croatia	18.2	36.8	10.8	41.4
Macedonia	28.1	22.5	13.6	9.9
Slovenia	4.5	2.7	11.6	8.8
Serbia, total	46.4	33.6	63.3	32.1
Serbia proper	28.4	9.7	22.0	5.5
Vojvodina	11.6	18.5	40.9	14.8
Kosovo	6.4	5.4	0.4	11.8

According to the figures in Table 6, SR Croatia, SR Macedonia and SAP Vojvodina have both the largest absolute amount and largest share (over 60 percent) in the total restoration of public land that had been usurped.

## Conclusion

On the basis of an analysis of expansion of landholdings of the socialized sector of agriculture the following conclusions are drawn.

1. Expansion of the landholdings of the socialized sector of agriculture in our country has not taken place uniformly, but is dependent on the overall socioeconomic development. It can be said that before enactment of the measures of the 1965 economic reform expansion of that stock was quite notable, and a quite appreciable decline of all forms of expansion of landholdings were noted thereafter, except in the period 1976-1980, when there was an increase in leasing, purchasing and new land development.
2. The largest share in total expansion of the landholdings of the socialized sector of agriculture goes to the leasing of land, and then to purchasing and new land development, while restoration of usurped land accounts for the smallest share.
3. The largest relative changes in all forms of expansion of the land stock of the socialized sector of agriculture have occurred in SR Croatia, SR Macedonia and SAP Vojvodina (about two-thirds of all changes), except for the leasing of land in SAP Vojvodina, which accounts for 59-65 percent.
4. Real opportunities exist for a further expansion of the land of the socialized sector of agriculture, and that through leasing, purchasing, etc. This possibility is indicated by figures on the large area of fallow land and uncultivated plowland in the private sector of agriculture. In recent years the average annual amount of fallow land and uncultivated plowland has been about 650,000 hectares, which constitutes 9 percent of our country's plowland. In addition the numerous households consisting of elderly people and nonfarmers would under the right conditions gladly relieve themselves of ownership of the land. However, the socialized agricultural organizations either lack adequate funds to expand landholdings or they have no interest in the small and remote plots of the private farmers, so that this question needs to be settled in sociopolitical communities at the upper level.

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